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and BUSINESS ANALYST

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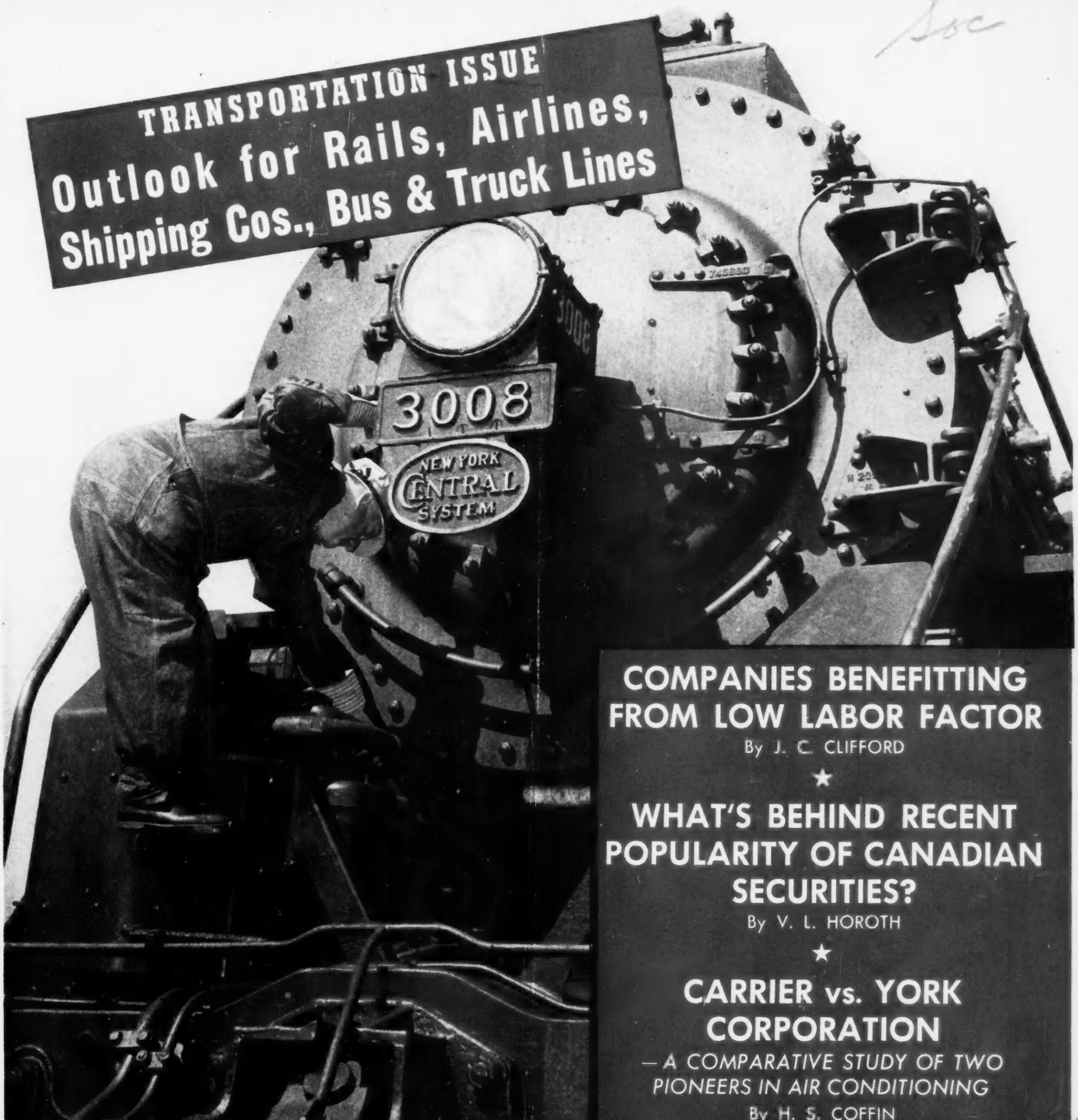

TRANSPORTATION ISSUE

Outlook for Rails, Airlines, Shipping Cos., Bus & Truck Lines

COMPANIES BENEFITTING FROM LOW LABOR FACTOR

By J. C. CLIFFORD

★

WHAT'S BEHIND RECENT POPULARITY OF CANADIAN SECURITIES?

By V. L. HOROTH

★

CARRIER vs. YORK CORPORATION

— A COMPARATIVE STUDY OF TWO PIONEERS IN AIR CONDITIONING

By H. S. COFFIN


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THE MAGAZINE OF WALL STREET
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CONTENTS

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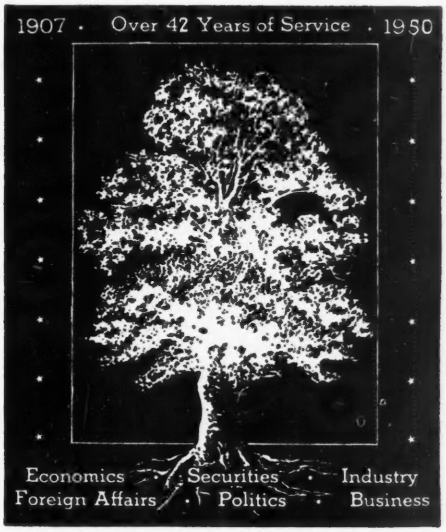
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor* ARTHUR G. GAINES, *Associate Editor*



The Trend of Events

FIRST INSTALMENT... Wage earners this month will begin to pay what President Truman has called "the first instalment" of higher Federal taxes to help finance war and preparedness costs. Corporations, too, will have to pay an average of 15% more on profits earned since last July 1.

But this first instalment is only a small, timid start toward the kind of taxation called for by the situation which this country and the world faces. It will little more than begin to pay for the increased arms spending Congress has voted since the fighting in Korea began, thus is not nearly within sight of the "pay-as-we-go" taxation which the President has said should be levied to "avoid an enormous increase in the national debt" and to "help hold down prices." It is still more remote from the kind of taxation which would be required to pay as we go for the all-out, high-speed rearmament which the world situation requires, but which has not yet been undertaken.

The next Congress will face the task of enacting a new and, as Administration spokesmen put it, "more comprehensive" revenue measure—a duty which Congress never performs with pleasure. By that time, however, the war in Korea, already won, will be over, and Stalin may be making a serious effort to wheedle us into complacency so as to weaken our will for defense and the better to prepare for his next move of aggression.

In such an environment Congress may be tempted to avoid or skimp its unpleasant duty on the theory that the communist world threat, having been repulsed in Korea, will subside and that we can safely relax our preparedness efforts.

If so, Congress could make no greater mistake. Whatever the next few months may bring in the way of subsiding tension—if indeed such is the prospect, of which we are far from sure—the tax program should be big enough to buy all the preparedness necessary to deter communist aggression without plunging the country into fiscal insolvency.

We hate to pay taxes as much as the next fellow, but we can see no alternative—that is, no better alternative. Nor are we greatly surprised to hear Treasury Secretary Snyder declare that the average American has "no notion" of the heavy tax burden that the nation's defense program will eventually impose. We agree with him, especially if the Administration sticks to its pay-as-we-go program, as it should if the value of the dollar is to be preserved.

But if the people are to bring this heavy sacrifice, they have a right to expect complementary action by the Government. This means cutting all non-military expenditures to the bone; and adoption of sound fiscal policies to maintain the integrity of the public credit and make ownership of Government securities attractive to investors.

After all, there is no point in imposing stiff taxation in the name of preserving the country's fiscal health, and at the same time undermine it in other ways. It wouldn't be smart, and it wouldn't be honest.

It is well to remind of that particularly at the present

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

stage, with the Government in the midst of a tremendous campaign of warning the public how bad the inflation menace is, and how tough the program must be to combat it. Almost daily, we hear "blood, sweat and tears" speeches about the need for high taxes, self-sacrifice, etc.

The desire to keep the people keyed up to the needs of the hour is understandable, though the way it's being done is perhaps not very flattering to their intelligence. When it came to recognizing the danger of the Russian menace, and to determination to stand up against it, it can be said that right along, the people have been far ahead of the Administration. They are not likely to fall behind now, or relapse into complacency just because the Korean war is over. They know that the Russian menace continues to exist and must be coped with.

Actually, when it comes to inflation, the greatest hope that major inflation can be avoided despite rearmament rests in the strong public sentiment that exists today for an effective program to combat another substantial rise in the commodity price level. Congress has been under considerable pressure to raise taxes and apply direct economic controls to safeguard the dollar's purchasing power. The public at large has become fully aware of what inflation means, and what must be done to stop it, and is willing to do it even if it hurts. This attitude will only change, if cooperation lacks elsewhere, or if vested interests in inflation are permitted to be built up.

ACCELERATED DEPRECIATION . . . Industry will be greatly helped in providing productive facilities for defense work by the terms of the new tax law covering accelerated depreciation of defense facilities. As during World War II, companies are authorized to write off emergency facilities within five years. During the last war, this provision played an indispensable role, for with confiscatory taxes in effect, industry for the most part was in no position to invest billions required for new facilities, much of it of little or doubtful value once the war was over. The privilege of writing off such investments against taxable income removed a serious obstacle to the building up of needed productive facilities. It will be equally useful during the present era of greatly expanded defense preparations.

Once again, business is faced with the need for large additional investments for plant and equipment for defense, while higher taxes take away earnings that would otherwise be available to finance such facilities. More flexible depreciation practices are highly desirable as a permanent reform of our tax laws. They are doubly desirable under present conditions. Fortunately, the wording of the new statute lends itself to flexible interpretation. The term emergency facility is defined to apply to "any facility, land, building, machinery or equipment, or any part thereof, acquired or installed after December 31, 1949."

The higher the tax levied on corporate income, the more vital does it become to encourage investment in new productive facilities by more favorable depreciation deductions from taxable income. Such encouragement aids not only the defense effort proper but industry's dual role of meeting defense requirements as well as normal civilian demands with a minimum of upset and restrictions.

To do so, industry is once more embarking on a vast expansion program, on top of the postwar expansion just barely concluded. It could hardly do so without the promised relief.

TRADE TUSSLE . . . At a time when much of the concern and activity of Governments must focus on the problem of containing aggression and maintaining international peace, another international conference which has nothing to do with military warfare, has quietly convened at Torquay, England. Its purpose is to bring a further measure of sanity and good will to international trade relations, to continue the good work begun at Geneva three years ago with the establishment of the General Agreement on Tariffs and Trade. Success of this conference can effectively promote world peace by improving the economic conditions which in the past have frequently led to conflict between nations.

Delegates of 39 countries controlling 80% of the world's trade are ready for a lengthy battle on tariff reductions, with the first big task on hand an extension which binds participants in the tariff pact to keep down the trade barriers which they have already lowered. Thereafter bilateral negotiations for tariff concessions will start, the most controversial part of the procedure. Yet it is encouraging in these days of tension and strife that nations can get together to solve their common problems in terms of reasoned principles and negotiations rather than by threat, pressure and retaliation.

Negotiating tariff agreements is long, arduous work, no less complicated by the fact that every concession, regardless of how beneficial it may be to the people as a whole, may do some injury to specific interests. The latter cannot be ignored, of course, but the overriding interest must be the general welfare—and this means lower tariffs and a freer international exchange of goods.

This country, a leading exponent of protectionism in the past, in recent years has set an excellent example in reducing tariffs and liberalizing trade—too good an example as some contend. Little wonder that the Torquay parley has aroused a good many advance protests by various business interests. One argument has been that international developments make it advisable to postpone the proposed negotiations—that we cannot afford the luxury of further tariff reductions at this time. Others counter with the statement that the western world, and this country particularly, cannot afford the luxury of *not* having such a conference. Again, it is argued that since the effects of previous tariff reductions are not yet fully known, it would be hazardous to agree to further cuts.

These conflicting opinions are entitled to be heard, and their validity examined with objectivity. Certainly nothing should be done that might unduly jeopardize the vital interest of labor and management in a wide range of industries which might be potentially affected. But this regard should not close our eyes to the larger need of expansion of international trade—in our own interest as well as that of the world. Nothing could contribute more to peace and stability. The Torquay meeting is a symbol and a demonstration of the way to it.

As I See It!

BY ROBERT GUISE

LET'S NOT FALL FOR IT AGAIN

With the recapture of Seoul, the first phase of the Korean war neared its end but by no means the war itself, though the time had come to ask about the meaning of victory in Korea. Pushing the communists back across the 38th Parallel already was a very real victory, yet one in many ways intangible pending decision of what to do next.

The crossing in force of the 38th Parallel imposes a new note. It resolves, militarily at least, the question which has hung over U. S. as well as UN leadership ever since the tide of the war turned in our favor—whether the Parallel *should* be crossed. But it also raised new questions, foremost that of possible Chinese or even Russian intervention. Also, if there is to be more fighting, it may not be cheap.

"THE ROAD BACK NORTH"

Bimrose in The Portland Oregonian

Still crossing the 38th Parallel was a risk that had to be taken if victory in Korea is to have any meaning. To imagine that it would be possible to halt at that fictitious boundary line, to sit down and negotiate for the freedom and unification of Korea is sheer absurdity. That of course is what the Kremlin is, or has been hoping for, hence the phoney Russian "peace offensive", the sudden display of amiability of the Russian UN delegation in the face of the military reverses suffered by the North Korean army. It's the same old game—an attempt to probe the sentiment and fortitude of the West to determine whether the time is ripe to resort to the classical maneuver of retreating one step in order to advance two steps at the next propitious moment.

However, it is painfully apparent that victory in Korea can be won only by unification of Korea into a free, independent state, and that such unification can be achieved only by the sword. The North Koreans have tried their brand of "unification" and must now abide by the decision they invited. It would never do for the UN forces to halt at the North-South line, let the Reds hide behind it and ready themselves for another comeback. If we would do that, we would lose the war after having won the battles. Even any delay, any indecision now will work against us in that it will give the enemy time to regroup, to prepare for further defense with subsequent fighting that much more costly.

In the light of this, it seems useless to speak any longer about the 38th Parallel, much less worry about passing or not that fictitious line which our air and naval forces have passed long ago, and which South Korean forces have now penetrated in some force. The fact simply is that peace cannot be brought to Korea except by the UN occupying the entire country as quickly as possible, despite the possibility that Red resistance may stiffen.

There are many reasons why one can hope that this can be achieved without our having to fight our way to the Manchurian border. The Reds are thoroughly beaten, their morale low, their supply precarious, their country and communications badly damaged. Latest peace feelers indicate that they are ready to throw in the towel. The critical question is the ability of the UN to meet the factual situation, and to show no weakness.

Stalin is out to try for the best deal possible—anything to rob us and the UN of the fruits of victory. But unless he is prepared to broaden the war, he will not interfere at this time. The same applies to Red China which is far more anxious to win a UN membership than engage (*Please turn to page* 48)

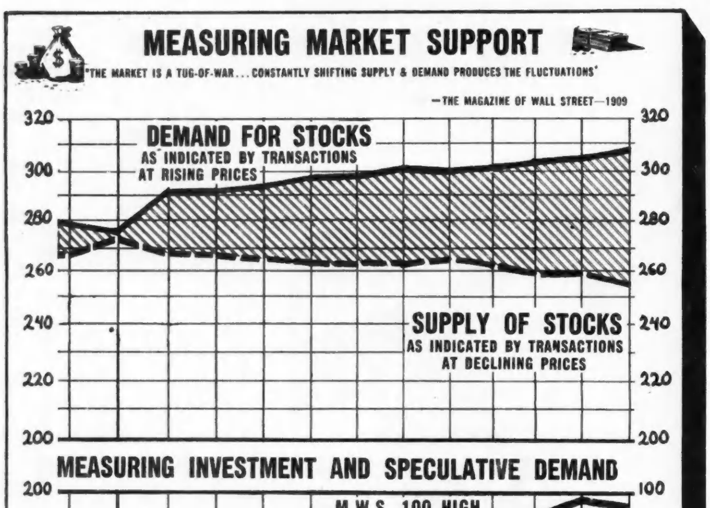
What Market Policy Now?

At a level moderately above the pre-Korea high, the advance in average stock prices appears to be meeting significantly increased resistance. There are many uncertainties in the picture, both of domestic and international character. Some medium-term business reaction is quite possible. Reasonably conservative reserves, in cash or equivalent, should be held intact. This is not the time to expand stock holdings.

By A. T. MILLER

Average stock prices have had a small further advance since our last previous analysis was written a fortnight ago. As things stand now, the Dow-Jones industrial average has risen roughly 30 points, or more than 15% from its July post-Korea low. The advance in broader and more representative measures of stock prices has been moderately greater than that. The Dow rail average has moved up some 17 points from its late June low, or by roughly 33%. Despite the lag in utilities, which have made up less than 43% of their previous decline, the market as a whole is appreciably, but not greatly, above the best level seen prior to the start of the Korean war.

The general impression given by the performance of the last fortnight is that investment-speculative willingness to buy stocks, and willingness to cash some profits or to get out of issues in which June-July losses have been recouped, is fairly evenly balanced. Although the charts show some uptrend for this period, it was slight, slow and laborious. This churning-around, suggesting increasing "tiredness" in the advance, may be of more technical significance, insofar as near-term possibilities are concerned, than the fact that a modest further net gain has been recorded.

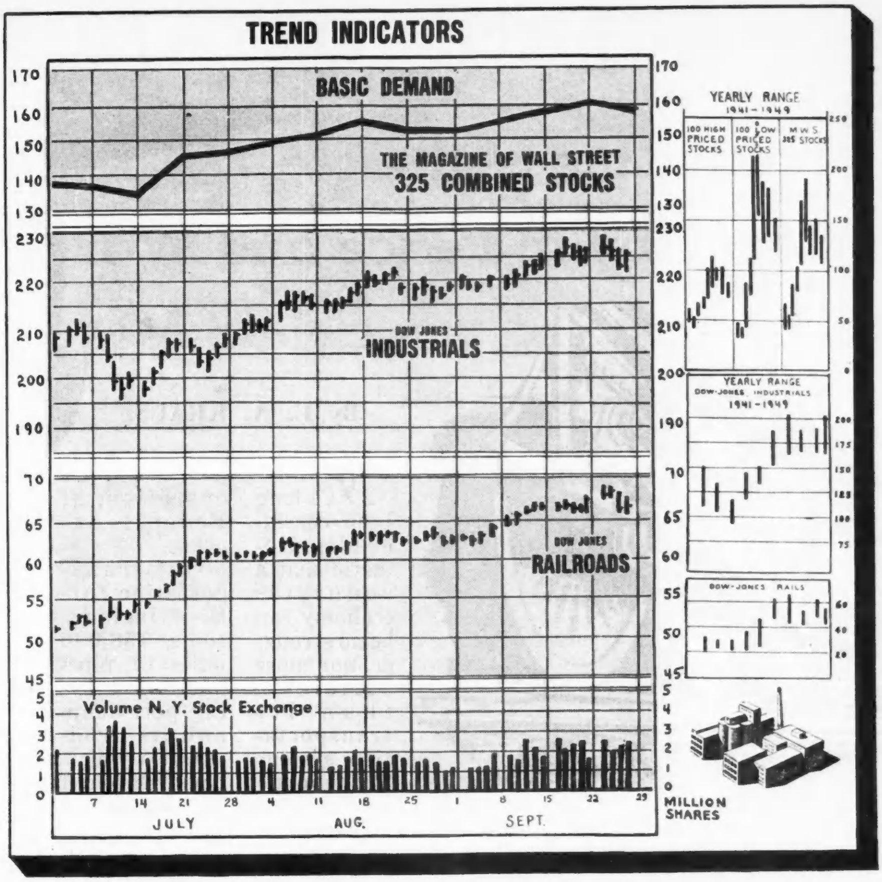


"Peace Stocks" Back In Favor

Hopes of a complete and relatively near military victory in Korea have shifted investment and speculative favor rather sharply to "peace stocks"—such as automobile, television, chemical and building issues, to name but a few groups—and away from "war stocks", with the principal exception of rails. The direction of the shift is logical enough, as things look at the moment; but the degree of enthusiasm shown in it in some recent trading sessions may not be equally logical. Indeed, it reflects no little confusion of mind. For instance, if the outlook for longer-term production of automobiles and video sets is as bright as recent market action of leading stocks in these fields appears to imply, then it has to be assumed that we are not going through with as big an armament program—or as tough controls—as the Administration insists are in the cards. If the latter is true, the inflation psychology, which has caused the heavy concentration of forward buying by consumers and business concerns during the last couple of months, would seem to be subject to temporary reversal within some medium-term period, if not sooner.

There are other indications of confusion of mind among investors and traders. For example, the sharpest daily changes in the industrial average in some weeks were seen in the two trading sessions of September 26 and 27. In the first of these, peace hopes, raised sharply by that day's war-front news, translated into a fall of 3.22

points in the industrial average. On the following day, published rumors that the North Koreans had put out feelers for an armistice resulted in a rise of 2.90 points in the average. In short, thoughts of early peace were taken as somewhat disturbing on one day, bullish on the next. Otherwise, all recent daily changes in the average have been fractional, reflecting more hesitation and uncertainty than conviction either way. The fact is that a wait-and-see attitude, which reflects itself in market hesitation, makes much more sense than jumping to hasty conclusions, for on a variety of important matters the visibility is quite low, if not nil.



Let us turn first to the Korean war itself. As this is written, the indications appear to be that the United Nations' forces will push on above the 38th Parallel into North Korea unless the Reds capitulate. If they do not, how far are we going to try to go into North Korea? How much might the effort prolong the war? Is there some risk of direct Chinese or Russian intervention, capable of drastically altering the whole military picture? There is no value in venturing guesses or opinions, when only events will give positive answers.

Next, what about taxes? Nobody, in or out of Washington, can give you the answer on this today. The inevitable increases, including an excess profits tax, might or might not be more severe then present average stock prices allow for. Much may depend on whether Congress is more or less scared by the general international picture, and more or less concerned by the threat of inflation, than it was when it recessed to permit all Representatives and a third of the Senators to jump into fence-mending and campaigning back home. In short, we are going to be uncertain about taxes for some time. As long as that is so, there is a wide margin for error in attempting to guess either what total corporate profits might be in 1951, or what any individual company might earn. Indeed, there is no little uncertainty even about 1950 earnings, since in many cases they can be significantly affected by whether EPT is made retroactive to October 1 or July 1, and, under either alternative, by the decision yet to be made on the exemption and the tax rate.

The Business Outlook

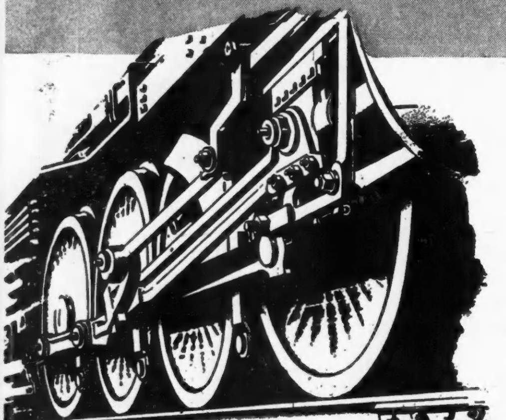
Official assurance that there will be no let-down in the defense effort, regardless of possible early peace in Korea, does not mean too much. The increase in defense outlays already authorized by Congress comes to about $17 billion a year, bringing the total to around $30 billion a year. It can make a considerable difference whether the month-to-month increase in the rate of such spending is slow or fast. So far it is so slow that it has not even showed up in the Treasury's operating picture; and peace in Korea will take some of the urgency out of it, at least to the extent of giving the Pentagon as much time as it could want for mapping out requirements. And peace in Korea can certainly influence the decision whether to hold annual defense outlays near the present authorized level, or to add another $20 billion a year to them, making an annual total of about $50 billion, as urged by the Joint Chiefs of Staff. The tempo and scope of defense spending will largely determine the ultimate severity and character of Government controls.

Meanwhile, the sharp recent acceleration of the civilian business boom, founded on inflation psychology and expectation of future shortages, may anticipate consuming needs too far ahead; and may exaggerate the actual inflation factor in the Federal budget, at least for some time to come.

A medium-term situation like this could well develop: the Government taking much more out of the pockets of taxpayers than it currently spends; the credit curbs becoming increasingly restrictive, especially on residential building; consumers pretty well bought up in automobiles and appliances, and with the supply outlook therefor more comfortable than many had figured earlier. In short, a temporary reversal in general business activity and inflation psychology should be allowed for, especially if the Administration speeds up control moves as it is now reported to be planning. (*Please turn to page* 48)

TRANSPORTATION

Front Line of the Economy in Peace and War



By E. A. KRAUSS

It's long been considered axiomatic that a country's economy can be no stronger, nor more efficient, than its transportation system. Transportation is vital for the movement of people and goods, to hold together and correlate a nation's activities. It is needed to expand local markets to national and world markets.

This explains why in the United States, transportation has developed into the largest and most important function of marketing. It also explains the traditional backwardness of countries with poor transportation facilities. The growth of a nation's economy has usually paralleled the growth of its transportation system.

Since the days when turnpikes, rivers and canals were the country's main arteries of travel and commerce, the American transportation system has undergone vast changes, and made enormous progress. Today it comprises a complex network of railroads, highways, waterways, pipelines and air routes extending into every state and county.

It includes a system of railroads totaling some 225,000 miles of track, representing almost wholly private investment of over $21 billion, plus $8.5 billion for rolling stock.

It includes the basic facilities of some 28,500 miles of inland waterways, owned chiefly by the Federal Government, on which some $2.6 billion in Federal and state funds have been spent in the past, with another $3.9 billion recommended or authorized for the future.

It includes a system of airways and civil airports —over 6,000 of the latter from which hundreds of planes operate over 68,000 route miles in scheduled domestic air transport service. For the airway system, some $2 billion have been expended to-date, including $1.5 billion for construction of airports, mostly provided by municipal funds, with Federal participation. $115 million were spent for air navigation facilities and aids, and $306 million for their operation, at Federal expense.

Our transportation further includes some 156,000 miles of pipelines for carrying petroleum and its products, on which about $1\frac{3}{4}$ billion has been spent for construction, largely if not wholly by private investors; and a rapidly growing system of natural gas pipelines, totalling 121,000 miles, for transmission and distribution of natural gas.

Last but not least, it includes a system of highways and streets totalling $3\frac{1}{3}$ million miles—owned by local, county and state governments but supplied with Federal aids. It is used by a fleet of $35\frac{1}{2}$ million private automobiles, $7\frac{1}{4}$ million trucks engaged principally in local service in and around cities and towns; and by approximately 400,000 large trucks engaged in intercity haulage.

Over these basic facilities are operated thousands of carriers of all kinds—all privately owned with the exception of Government operation on the waterways and airways. There are some 132 Class I railroads and 500 smaller lines; 800 shipping companies operating on the Great Lakes, inland waterways and in coastal and intercoastal services; sixteen scheduled airlines and many more non-scheduled and private air carriers; 3,000 highly regulated common-carrier truck companies and over 50,000 partially regulated contract carriers on the highways. Also there are 1,600 bus lines. And there are, of course, the transoceanic shipping lines taking care of overseas travel and commerce.

Transportation is Big Business

Just how big a business it is, is aptly shown by the fact that a total of over $38 billion was spent by the American people last year for all kinds of transportation—to move people and goods by waterways, rails, highways, air and pipelines. To move about, people alone spent some $18 billion; after all, we have always been a nation on the move, living in a country of great distances.

And over the years, nearly $100 billion has been

invested in total facilities which are greater than those of all other countries of the world combined. In fact, about one-fifth of all the money we invest, is for transportation facilities. In the ten years before World War II, capital outlays of this nature came to about $2.8 billion annually.

The railroads played an epic role in the settling and development of America. They even became part of our folklore. They have lost some of their freight and more of their passenger traffic to autos and buses, to trucks and airplanes; still they remain a basic part of our transportation system as a whole upon which the nation's welfare is just as dependent as before. Despite heavy competition, some of it subsidized, it remains as true today as ever that the American economy is built around the railroad freight car without which it could not exist.

This is so for a variety of reasons, a major one being the inherent physical and operating characteristics of the railroads. They can carry anything movable, and they are expansible in their capacity simply by increasing the load, adding more cars, running more trains.

Other forms of transportation are limited in the territory served, or in the seasons and weather in which they can operate; or in the nature of what they can haul, in their ability to expand capacity readily and economically. None of them—nor all combined could take the place of the railroads—and this makes the rail system vital in peace or war. Even if it were possible, physically, to get along without railroads, our economy could not afford the added cost in manpower, fuel and money of moving the railroad freight load by any other means of transport.

Still over the years, other forms of transportation have made sizeable inroads into the volume of railroads, both passenger and freight. The rapid growth of private automobile ownership and bus lines has cut deeply into passenger business, particularly over shorter or medium distances. Buses and airlines have eaten heavily into long distance passenger volume while trucks and pipelines have reduced freight traffic potentials measurably. As an example of the latter, during the decade ended 1949, the traffic of intercity motor carriers, in terms of ton-miles, rose 125%, that of pipelines 97%; but that of railroad carriers rose only 53%.

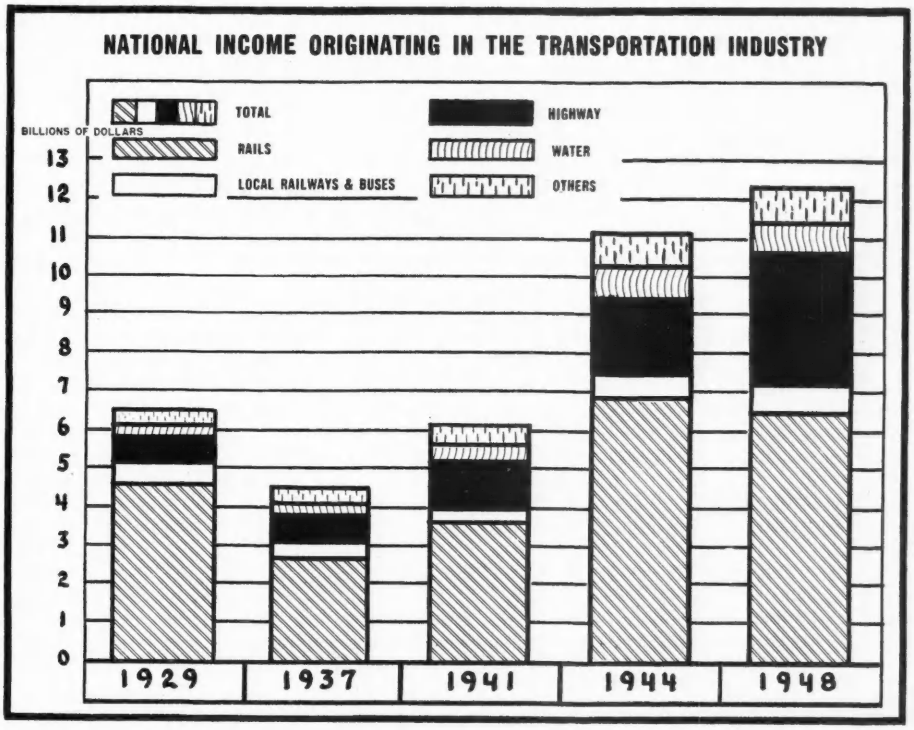
The marked shifts that occurred in the amount and proportion of traffic handled by the various modes of transport are illustrated in the accompanying tabulations compiled by the Association of American Railroads and based on source material of various official agencies. This breakdown shows that whereas back in 1926, the railroads accounted for 76.8% of intercity freight traffic in the USA, their share last year was only 61.5%. World War II brought a temporary recovery to 72.7% in 1943 from 62.3% in 1940 but this resurgence vanished with the fading of the war emergency. On the other hand, though the railroads' share, percentagewise, declined steadily, their freight traffic in terms of ton-miles remains well above prewar, though very considerably below the war-time peak.

Their loss of passenger traffic has been more pronounced. In 1944, at the height of the war effort, steam railroads accounted for over 95 billion of passenger-miles, or 74.4% of the total. Last year, their passenger traffic was down to 35 billion passenger-miles or 54% of the total.

Shifts in Freight Haulage

In the field of freight haulage, we find that since 1926, motor trucks managed to raise their share from 2.8% to 10.5% of the total. Pipelines raised theirs from 4.4% to 12.3%, almost trebling it, reflecting both the growth of the oil industry as well as traffic lost by the railroads. Even freight traffic on the nation's waterways gained though that on the Great Lakes fell off.

The breakdown of passenger traffic is equally revealing. We have already shown that the railroads share has dwindled to little more than half, from about three-quarters twenty years ago. An even sharper loss was suffered by electric interurban railways, whose share dropped from 12% to less than 1%, most of it going to private automobiles and buses. The share of the bus lines has risen steeply from 9.2% in 1926 to 31.9% last year; covering not only local but long distance transportation as well. And the airlines, latest newcomers on the transportation scene, managed to raise their share from



*Distribution of Commercial Intercity Passenger Traffic in the United States**

Agency	1926 Passenger-miles (mil.)	1926 % distribution	1940 Passenger-miles (mil.)	1940 % distribution	1944 Passenger-miles (mil.)	1944 % distribution	1948 (b) Passenger-miles (mil.)	1948 (b) % distribution	1949 (c) Passenger-miles (mil.)	1949 (c) % distribution
Steam railroads	35.673	75.2%	23.816	61.5%	95.663	74.4%	41.224	56.3%	35.150	54.0%
Electric interurban	5.537	11.7	.950	2.4	2.041	1.6	.670	0.9	.600	0.9
Inland waterways (a)	1.848	3.9	1.317	3.4	2.187	1.7	1.757	2.4	1.700	2.6
Busses	4.375	9.2	11.613	30.0	26.548	20.6	23.648	32.3	20.800	31.9
Air carriers	—	—	1.052	2.7	2.178	1.7	5.963	8.1	6.900	10.6
Total	47.433	100.0%	38.748	100.0%	128.617	100.0%	73.262	100.0%	65.150	100.0%

Source: Association of American Railroads

(*) Passenger-miles in private automobiles not included.
(a Great Lakes, rivers, and canals.
(b) Preliminary, subject to revision.
(c) Partially estimated.

nothing to over 10%, chiefly highly profitable long-haul traffic gained at the expense of railroad pullman business.

Since 1940 alone, the number of passenger-miles flown by the airlines has increased almost sevenfold to 6.9 billion passenger-miles. Back in 1930, the total was only 104 million. Today flights across the country and oceans, once big events, have become commonplace and are now scheduled regularly, with volume of airmail and air express also growing rapidly.

What's interesting about the distribution of traffic is not only the relative shift in shares among the various forms of transportation, generally working against the railroads, but the size of the various shares as well as that of the total transportation "pie." The latter, it must be noted, is far bigger than prewar, and so are the "slices." All of which makes the relative decline of the railroads less drastic than it would seem; and the gain of competitors even more impressive. Closer study of the statistical data readily bears this out.

It goes without saying that every form of common carrier is essential to our transportation system, but the regulated carriers are hampered by vast changes in conditions arising from competition of private and contract carriers, and competition between forms of transportation. All of which calls for a national transportation policy that meets modern conditions. Actually it has been contended that transportation has become the economic orphan of the enterprise system; that if it is to serve adequately in war and peace and if competitive private ownership is to be preserved, there must be revision of the basic concept of our national policy and establishment of a system of regulation which will assure stability and efficiency of all forms of carriers.

Regulated vs. Unregulated Carriers

In this connection it has been pointed out that regulated carriers, and particularly the railroads, have not been able to participate, to the extent of other industries, in the nation's economic prosperity in recent years. Faced with constantly higher wage scales and rising costs, they have not been able to offset these factors by corresponding and prompt advances in rates. To some extent these claims are acknowledged by supervisory authorities who in the more recent past have shown greater inclination to deal realistically with the carriers' problems, a trend that will doubtless grow under the impact of the current emergency.

The latter has already led to recognition of the acute shortage of freight cars with the result that the emergency transportation director Knudson has made an urgent request to NPA for enough steel to build 10,000 cars monthly for an indefinite period. Ironically, also, transportation leaders are preparing to groom the trucking industry to take up more of the transport slack created by the freight car shortage and the mount- (*Please turn to page* 48)

*Distribution of Commercial Intercity Freight Traffic in the United States**

Agency	1926 Ton miles (mil.)	1926 % distribution	1940 Ton miles (mil.)	1940 % distribution	1944 Ton miles (mil.)	1944 % distribution	1948 (b) Ton miles (mil.)	1948 (b) % distribution	1949 (c) Ton miles (mil.)	1949 (c) % distribution
Steam railroads, including mail and express	450.600	76.8%	378.343	62.3%	745.829	70.0%	646.183	64.4%	533.000	61.5%
Great Lakes (a)	83.000	14.1	87.593	14.4	105.620	9.9	107.407	10.7	95.000	11.0
Rivers and canals	9.543	1.6	22.412	3.7	31.385	3.0	43.123	4.3	40.000	4.6
Motor trucks	16.218	2.8	51.003	8.4	49.308	4.6	87.640	8.7	91.000	10.5
Oil pipe lines	25.900	4.4	67.270	11.1	132.336	12.4	118.676	11.8	107.000	12.3
Electric railroads	1.454	0.3	.818	0.1	1.339	0.1	.908	0.1	.800	0.1
Air carriers	—	—	.14	—	.68	—	.139	—	.200	—
Total	586.714	100.0%	607.453	100.0%	1,065.885	100.0%	1,004.076	100.0%	867.000	100.0%

Source: Association of American Railroads

(*) Includes intercity freight traffic by private as well as contract and common carriers, except coastwise and intercoastal traffic.
(a) U. S. domestic traffic only.
(b) Preliminary, subject to revision.
(c) Partially estimated.

COMPANIES BENEFITTING From Low Labor Factor

—IN PERIOD OF RISING WAGES

By J. C. CLIFFORD

The approaching impact of heavier corporate taxes is now engrossing the attention of investors so markedly that the steady progressing fifth round of wage increases seems to have lost some of the attention it deserves. It is interesting to consider what a flurry of excitement would have arisen only five years ago, could it have been foreseen that wage costs were headed for their current levels, not to mention those likely to prevail in 1951. Still more fantastic would it have seemed then to assume that despite the wage handicap, corporate sales, earnings and dividends by 1950 would be at record highs. Yet this apparent miracle is likely to happen, to some degree accounting for the present complacency over mounting wage costs and their future impacts.

Since the elimination of price ceilings in 1946 and the advent of intensified competition, it has been extraordinary how many industries and companies have managed to keep their wage ratios relatively stable under the pressure of consistently rising pay rates. Postwar experience to some extent has supported the claims of those who hold that the vigor of the economy can only be maintained through a steady rise in worker income, attended by increased operating efficiency and the competitive brake on prices.

According to the Department of Commerce, the ratio of total wages and salaries for all industries to sales in 1949 was about 38% compared with 40% in 1946 and as much as 52% in 1942, in both of which earlier years the economy was experiencing many readjustments. In the boom year 1948 the ratio was around 34%, although by that time the third round of wage increases had begun to exercise weight.

Complete statistics are not yet obtainable to determine the ratio for all industries in the first half of 1950, when corporate sales advanced substantially. The Commerce Department, though, states that in May and June, wages and salaries surpassed the peak months of 1948, with the June quarter's total at an annual rate of $140 billion, the highest on record. Regardless of these higher costs, chances are strong that a majority of concerns, aided by higher prices and enlarged volume, have continued to keep their wages ratios well under control.

Looking ahead, a more severe test appears shaping up for many firms in view of the sustained uptrend in wage costs, especially for those forced to operate with relatively high wage ratios at all times. It should be realized that wages indirectly determine the cost of materials also, and this factor has become increasingly potent in pushing break-even points upward. Add to these the rigid allowances for new pension provisions, now equalling about 7 cents an hour on the average, and applicable even in recessionary periods, it will be seen that in many cases, a relatively moderate decline in volume could exert heavy pressure on profit margins.

In general, high wage ratios are characteristic in the machinery, electrical appliance, construction, office equipment, aircraft and steel industries, whereas a high degree of mechanization permits relatively low ratios among producers of tobacco products, food items, soaps, sugar, meats and petroleum products. In this latter group, a moderate increase in prices can more readily offset the influence of advancing wage costs that constitute only a minor portion of over-all expenses. Potential consumer resistance to slightly higher prices for the essential items in the foregoing category is not so strong as for the more expensive heavy goods or appliances where a modest rise in price could mean a good deal in actual dollars.

Effect of Current Wage Drive

As a result of the inflationary spiral now under way, rising living costs and the expanding cost of financing the huge military program point strongly to eventual imposition of wage-price controls since otherwise the scramble of labor unions to keep abreast of steadily mounting living costs may continue indefinitely. In anticipation of these restrictions, business managements of course are on their toes to adjust prices to a level where a freeze would leave their wage ratios unimpaired. To what extent

*Average Payroll-Sales Ratios of 71 Large Manufacturing Companies**

		%
4	Meat Packing	10.0%
6	Foods	14.7
2	Drugs	15.3
2	Merchandising	15.7
1	Soap	16.5
6	Petroleum Refining	17.1
3	Brewing & Distilling	19.8
3	Containers	22.5
8	Autos and Parts	24.5
2	Pulp and Paper	27.5
7	Iron and Steel	30.1
2	Baking	30.4
3	Railway Equipment	31.6
4	Building Equipment	32.0
2	Rubber Tires	32.3
4	Machinery	32.5
3	Textile Products	33.2
4	Electrical Equipment	34.4
2	Aircraft Mfg. and Airlines	50.8
3	Office Equipment	63.7
71	Total	27.7

*—Percent of payroll to sales in 1949.

individual concerns succeed in this endeavor remains to be seen, and may decidedly affect their competitive position under the prospective conditions ahead.

There are several reassuring aspects of the economic changes now unfolding, and in combination these may mitigate the problems of many firms. Primarily, vast gains in operating efficiency in postwar should increasingly tend to stabilize wage ratios, since only in the current year have most steps in this direction begun to bear fruit. Cost economies already established could progressively offset the impact of advancing wage costs, and the current rush of numerous companies to expand and to acquire substantial amounts of more modern equipment attests to the fact that unit costs of many items may remain steady or even be reduced, despite rising wages.

Low Labor-Cost Companies

	1949 Sales (000)	1949 Payrolls (000)	% of Sales
MEAT PACKING:			
Armour & Co.	$1,848,280	$201,063	10.8%
Cudahy Packing Co.	559,204	48,454	8.6
John Morrell & Co.	292,795	29,377	10.0
Swift & Co.	2,213,160	237,520	10.7
FOODS, ETC.:			
Amer. Sugar Refining Co.	277,188	23,459[1]	8.4
Beatrice Foods Co.	190,459	27,689	14.5
Borden Co.	613,763	109,780	17.8
Corn Products Refining Co.	145,318	24,623	16.9
General Foods Corp.	474,637	64,356	13.5
National Dairy Prod. Corp.	897,675	156,888	17.4
DRUGS:			
Amer. Home Products	147,967	33,212[1]	22.4
McKesson & Robbins	367,581	30,392[1]	8.2
MERCHANDISING:			
W. T. Grant Co.	233,167	36,608	15.7
Allied Stores	407,838	64,500[2]	15.8
SOAP:			
Colgate-Palmolive-Peet Co.	203,996	33,797	16.5
PETROLEUM REFINING:			
Atlantic Refining Co.	446,462	78,091	17.4
Gulf Oil Corp.	969,502	167,723	17.3
Ohio Oil Co.	165,533	26,740	16.1
Phillips Petroleum Co.	486,442	80,363	16.5
Shell Oil Co.	816,427	136,834	16.7
Socony-Vacuum Oil Co.	1,226,698	228,117[1]	18.6
BREWING & DISTILLING:			
Pfeiffer Brewing	19,953	4,494	22.5
Schenley Industries	461,852	48,000[1]	10.3
Walker (H.) Gooderham & W.	294,112	20,000	6.8
CONTAINERS:			
American Can	468,390	111,589[1]	23.8
Container Corp. of Amer.	114,770	23,549	20.5
Continental Can	335,832	78,138	23.2

[1]Includes employee benefits. [2]Approximate.

War Orders, Sellers' Markets as Offsets

Additionally there is also the prospect of large military orders that should sustain high level activity for many manufacturers, regardless of possibly curtailed civilian production. As there is every indication that civilian purchasing power will expand rather than contract in the foreseeable future, any shortage in civilian goods may easily create a seller's market for their producers and enable them to offset the burden of price ceilings through sustained high level operation. This factor may benefit many marginal or smaller concerns as well as their larger competitors, and tend to hold their wage ratios at a fairly stable level.

Our comments thus far should not promote the thought that a low wage factor should be made an overriding investment criterion. To the contrary, the test will hinge more on the proven or prospective operating efficiency of a company relative to others in its special group. The record shows that a most satisfactory earnings experience can be found among firms with high wage ratios, and vice versa.

Suppose we discuss a few industrial groups and examine their over-all wage ratios in relation to those of some of their components, as well as to trends in the ratios during postwar. As an aid to this study, we append tables showing pertinent statistics relative to a number of concerns in various industries, divided into the low labor-cost group and one with medium or high wage ratios. Additionally we list 20 industries to show their average payroll-sales ratios based on the samples listed. In order to widen the scope of these comparisons, we will also refer to ratios based on Department of Commerce statistics covering total wages and sales in some of the principal industrial divisions.

Diverging Trends and Ratios

At the outset it is significant that the average ratio of 27.7% shown for 71 large manufacturers in 1949, representing a broad cross section of the much larger group, was considerably below the 38% for all industrial concerns cited early in our discussion. This factor rather clearly indicates an advantage derived from size and the fruit of very extensive activity. Of even more importance is evidence stemming from the Government statistics that by far the greater majority of industries have succeeded in progressively lowering their wage ratios in postwar despite the sharp uptrend in labor costs. 1949, to be sure, was an exception to the rule because of temporary readjustments last year, but even so the slightly higher ratios compared with the previous year were quite moderate, the spread amounting to only 4%. Taking all manufacturers, the average wage ratio of 24% in 1949 compared with 23.5% in 1948, 26.4% in 1946 and 26% in 1942. Considering all the varying conditions manufacturers have had to contend with since the start of the late war,

their excellent control of wage ratios has been notable.

Producers of automobiles and automotive parts in postwar have experienced a record demand that as yet has not diminished. Sales of the industry expanded consistently from a total of about $6.6 billion in 1946 to $15.4 billion in 1949, while their payrolls in the same period rose from $1.8 billion to nearly $2.7 billion. In the course of this progression, the average wage ratios of the entire industry narrowed from 29% in 1946 to 26% last year. From one of our tables it will be seen that the average of eight leaders was only 24.5% in 1949, and from another tabulation some rather wide variations from these norms are shown for individual units.

Chrysler Corporation last year had a modest wage ratio (to sales) of 16.7% versus 23.9% in 1946 and 18.4% in 1948. If the 1949 ratio had been based on the relationship of wages to operating costs rather than to volume, as is often customary, the percentage would have been 19.5%. These figures indicate an operating efficiency that probably accounted in part at least for Chrysler's voluntary wage boost recently.

The wage ratio of General Motors Corporation in 1949 was 25.2% of sales or 33.4% of operating costs, but undoubtedly it has contracted substantially in the current year. The activities of GM are much more diversified than those of Chrysler, to some extent distorting comparisons, but it is interesting to note that the wage ratios of General Motors have steadily declined from a peak of 44.3% in 1946 to their recent level. The company's huge earnings speak for themselves in any discussion of operating efficiency.

The labor costs of Mack Trucks have always been relatively high compared with volume and in 1946 the ratio was up to 59.4%. The 1949 ratio of 36.1%, accordingly, was not too unsatisfactory considering a sharp decline in sales. Comparison with 31% in the previous successful year is not as unfavorable as it might seem, but the normally high wage ratio of Mack Trucks may create problems in the future.

The important segment of the economy represented by the steel industry has made relatively good progress in stabilizing its wage factor, though having been a prime target for higher labor pay. Payrolls of this group have climbed from $4.5 billion in 1946 to $5.6 billion last year, but a rise of more than $5 billion in sales in the same period proved a valuable offset. In the interim, especially in the past two years, a long list of steel companies have reduced their operating costs by installation of faster equipment, automatic devices to handle work in process, larger furnaces and by the use of improved materials. These advantages, combined with effective pricing policies, enabled the industry as a whole to attain a wage ratio of 30% in 1949 compared with 33% four years earlier.

U. S. Steel has one of the highest ratios in the group, though it has consistently become smaller in postwar years due to volume gains and plant improvements. A wage ratio of 39.3% in 1949 showed considerable betterment compared with 45.4% in 1946. Bethlehem Steel's ratio of 35.4% last year was slightly lower than that of Big Steel and has declined significantly from 49.1% back in 1946. Most of the smaller steel companies on our list had a ratio close to 25% in 1949, reflecting advantages from continued high production and moderate overhead. To judge from the record, the steel industry has managed to control wage ratios most efficiently to date and is fairly well situated to keep them stable.

Manufacturers of office equipment are faced with unusually high labor costs relative to their sales. Three leading concerns in this field listed on our table have an average ratio of above 63%, mainly due to the large amount of assembly work in the production of intricate office devices and the multiplicity of their parts. The ratios in this group tend to change rather widely in line with variations in volume, and could mount rather fast in the event of any marked recession in demand. National Cash Register Company reduced its wage ratio to 63% in 1949 from 66% in 1947, but Burroughs Adding Machine has varied little from 65.3% in the last three years although comparisons with 73.8% in 1946 are quite favorable. (*Please turn to page* 48)

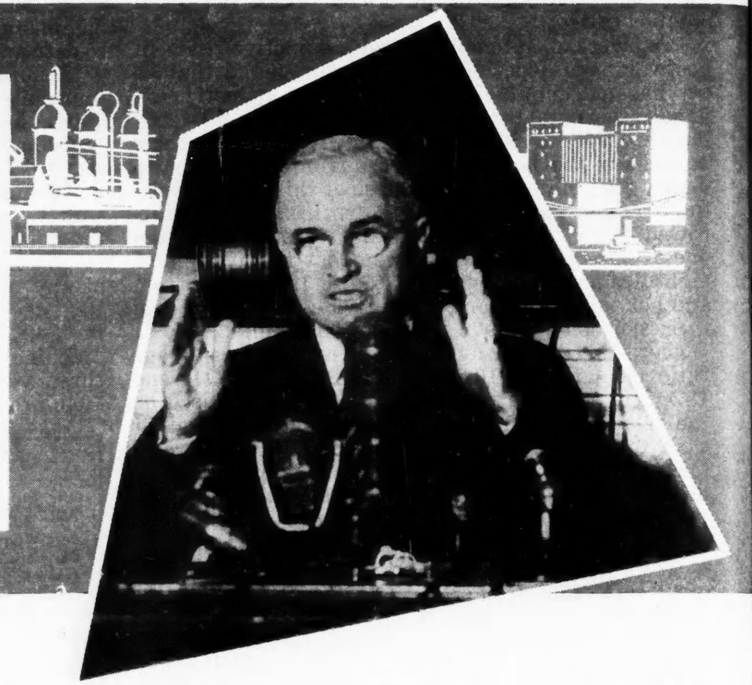
Medium & High Labor-Cost Companies

AUTOS AND PARTS:	1949 Sales (000)	1949 Payrolls (000)	% of Sales
Borg-Warner Corp.	$ 252,366	$ 66,512	26.3%
Chrysler Corp.	2,084,602	349,479	16.7
Eaton Mfg. Co.	102,227	27,355	26.7
General Motors Corp.	5,700,835	1,440,690	25.2
Mack Trucks, Inc.	78,327	28,321	36.1
Nash Kelvinator Corp.	364,193	86,417	23.7
Packard Motor Car Co.	212,587	38,278	18.0
Willys-Overland Motors	142,362	34,025	23.8
PULP AND PAPER:			
Crown Zellerbach Corp.	171,928	41,870	24.3
West Va. Pulp & Paper Co.	88,441	27,116[1]	30.7
IRON AND STEEL:			
Armco Steel Corp.	341,350	96,404	28.2
Bethlehem Steel Corp.	1,266,843	449,131	35.4
Inland Steel	345,861	88,011	25.4
National Steel	424,892	107,843	25.3
Republic Steel Corp.	651,952	207,255	31.7
U. S. Steel Corp.	2,301,685	906,387	39.3
Youngstown Sheet & Tube	334,843	84,601	25.2
BAKING:			
National Biscuit Co.	294,420	101,938[1]	34.5
Sunshine Biscuits, Inc.	100,997	26,538	26.3
RAILWAY EQUIPMENT:			
American Brake Shoe Co.	91,734	30,412[1]	33.1
American Locomotive Co.	147,244	38,681[1]	26.2
American Steel Foundries	74,619	26,600[1]	35.6
BUILDING EQUIPMENT:			
Amer. Radiator & S. S. Corp.	206,476	67,437	32.6
Crane Co.	174,894	47,282	27.0
Johns-Manville Corp.	162,580	60,684	37.3
Pittsburgh Plate Glass	281,462	87,500	31.1
RUBBER TIRES:			
Goodyear Tire & Rubber	633,505	190,471[1]	30.0
U. S. Rubber Co.	517,439	179,272	34.6
MACHINERY:			
Caterpillar Tractor Co.	254,871	76,825[1]	30.1
Dresser Industries, Inc.	80,629	21,443	26.6
International Harvester	908,910	312,633	34.4
Link Belt Co.	88,172	34,532[1]	39.1
TEXTILE PRODUCTS:			
Amer. Viscose Corp.	194,664	70,593[1]	36.2
Celanese Corp. of Amer.	171,292	56,600	33.0
Pepperell Mfg. Co.	69,219	21,118	30.5
ELECTRICAL EQUIPMENT:			
Allis-Chalmers Mfg. Co.	351,097	99,888	28.4
General Electric Co.	1,613,563	606,685	37.6
Radio Corp. of Amer.	396,138	128,048	32.3
Westinghouse Elec. Corp.	945,699	372,657[1]	39.4
AIRCRAFT MFG. & AIRLINES:			
Douglas Aircraft Co.	117,421	66,200	56.4
American Airlines	103,205	46,694	45.2
OFFICE EQUIPMENT:			
Burroughs Add. Mach. Co.	82,653	53,984	65.3
National Cash Register Co.	167,345	105,664	63.0
Royal Typewriter Co.	42,554	26,793	63.0

[1]Includes employee benefits.

TRUMAN'S CONTROL POWERS

—WHAT THEY PORTEND FOR BUSINESS



By JOHN D. C. WELDON

With passage of the Defense Production Act of 1950 and creation of the National Production Authority (N.P.A.), the way has been opened towards placing the economy progressively under controls, the ultimate scope and tightness of which is difficult to foresee. The control powers granted to President Truman are seemingly "all-out"; how effective they will prove in practice is another matter, for some are so hedged with restrictions that they may be difficult to apply. Some real test on how the NPA can and will perform lies ahead.

Here is, briefly, what the Control Act implies. The President's priority and allocation power is quite complete, enabling him, if he should find it necessary, to set up a complete War Production Board along World War II lines, or delegate powers to any agency of the Government. The only restriction is that allocations of scarce materials must follow "normal distribution patterns" which existed prior to the Korean war, a reservation largely aimed at assuring a "square deal" for small business. How this will work in practice is already open to doubt. Few think that normal production patterns can be maintained, should the need for really tight controls develop.

The President also has the power of requisition over inventories and productive facilities, with authority to penalize hoarders. Just how readily it may be used remains to be seen, particularly when it comes to plant seizures. In the latter event, however, the Government can negotiate new labor contracts.

Plant expansion powers have been drastically watered down, with funds for this purpose cut from the original proposal of $2 billion to $600 million. While under this provision, the Government has no authority to build new plants directly, it can loan funds, or guarantee loans, for such purposes, as well as expand existing Government-owned plants.

Price and wage control powers are tied together and expire as early as June 1951 whereas all the other powers are valid a year longer. Price controls may be imposed selectively but must be accompanied by wage controls in the respective field. And once a substantial part of the economy is covered, such controls must be made general and wages frozen. It is this particular section of the control act which is creating the most doubt about the possibility of practical application.

It has definite weaknesses in that price control permitted over farm products is, for political reasons, fairly weak, far less firm than that over industrial prices. Food prices thus could still rise further, leading to renewed wage demands and complicating the whole price-wage situation. No early price or wage controls are indicated; not only is labor unenthusiastic over a wage freeze, but it takes time to set up an efficient control system. Chances are that existing price-wage control powers may not be used at all until they are overhauled by the next Congress.

Credit controls are limited to curbs on instalment buying and stricter terms on loans for new private construction—both under the supervision of the Federal Reserve Board.

Price and Wage Controls

The sections on price and wage controls authorize the President to first promote voluntary action by business, agriculture, labor and consumers in holding down wages and prices. Only if he finds that such action isn't effective in controlling inflation, would he be empowered to issue orders setting specific price ceilings. The President already announced his decision to give voluntary controls a real try, no doubt a sound decision at the present incipient stage of the defense effort. This of course requires cooperation and restraints of every economic group and whether this can be maintained is the test that now confronts us as a nation and as individuals.

In view of the fifth round wage drive, the outlook

is not too promising. Because of such doubts, an overall price and wage stabilization agency, known as the Economic Stabilization Agency, has already been created. Apparently, also, the President does not believe that the Control Act gives him sufficient leeway for an effective use of selective controls as industrial mobilization gets going, that full controls may ultimately be needed.

In short, the machinery is set up for tight Government regulations over virtually every phase of the economy, when needed, and "creeping" controls are on the way. Initial steps so far undertaken appear reassuring, and at the same time promise to prove fairly effective, at least as far as the present stage of the defense effort is concerned.

NPA Regulation No. 1

The newly established NPA has clamped emergency controls on industrial inventories to prevent overbuying, but it also left plenty of room to make its rules easy or tough as the occasion demands. The order, covering stocks of 32 scarce raw materials and semi-finished products, bans more than "normal" inventories of these materials and can be enforced under substantial penalties. Complementing it, another NPA edict gives companies with military orders first crack at scarce materials, with others to divide among themselves the balance in equitable manner.

The broad commodity groups so far covered by inventory controls include building materials, chemicals, forest products, iron & steel, other metals and minerals, rubber and textiles. For the time being, there will be no regulations aimed at end- products, but it is thought that these two orders ought to take care of essential and non-essential products fairly well, with military demands having first call.

With the defense effort still in its initial stage, the impact of inventory and priority controls won't be severe at first if only because the defense effort won't make substantial demands on industry at least until the end of the year. Even after it's been launched, the program will gather momentum slowly. It should begin to register more noticeably after the first quarter of next year, and once it does, the priority scramble will increase, and so will controls.

Even before that, there may be orders telling industries to set aside output for military and essential civilian purposes, with producers to divide quotas voluntarily. Non-essential users of raw materials won't feel these diversions much until after the turn of the year, but thereafter the battle will be on. Allocations will not stop when military needs are taken care of; eventually they will be extended to essential civilian users such as manufacturers of freight cars, of oil refinery equipment, of various other "essential" production. We experienced something similar back in 1941 when we had a veritable "priority inflation". We may have it again in 1951 when industrial mobilization really gets rolling. It could put "voluntary plans" quickly out of the picture, to be superseded by more detailed allocations and curbs of scarce materials in non-essential production.

In the credit field there has been a moderate tightening of instalment and mortgage credit, with more action in this direction doubtless to come. Here, too, as elsewhere first impacts have been quite modest. In fact, the mild easing into a controlled economy is viewed by some not alone due to the slow start of the defense program, but partly also as pre-election window dressing, with the big control stick to be applied after the votes are in. There may be a good deal of truth in that though the present policy of "making haste slowly" with controls may also be due in part to wishful thinking, the hope that more drastic controls can be avoided.

Such hope seems to persist, has in fact received new nourishment by the latest turn of events in Korea, promising a shorter war than seemed probable a few weeks ago. While this would mean no change in our heavy commitments for rearming, it might mean less urgency, less of an emergency rush, more orderliness in the development of the entire defense effort and thus at least greater delay, if not avoidance of stricter controls.

In the end, such thinking may actually prove wishful thinking. For even in the event cited, our overall defense effort would lose nothing of its urgency, and once it gets rolling, impacts are bound to widen irrevocably. Once begun, controls have a way of spreading, of begetting more controls, particularly if there is need to make up for earlier bungling and delay, correction of which may actually call for more severe controls than required by actual military demands.

Many people are convinced that the Administration has already made up its mind that voluntary and partial controls won't work, and is merely biding its time until after the elections before the new Economic Stabilization Agency will blossom out into a full-grown OPA, possibly even before there will be a real crackdown on wages through the new Wage Stabilization Board. Be that as it may, business at any rate will play safe in anticipating stricter controls as time goes on.

More Drastic Credit Curbs to Come

This is almost a foregone conclusion in the instalment credit field, where a further tightening of terms must be expected. Mortgage credit restrictions also will become "tougher", perhaps as early as a few weeks hence, to temper private home buying and building, with controls designed to discourage second mortgages on houses financed without Federal aid. Higher priced homes will require bigger cash down payments, with mortgage maturities limited to 20 or 25 years. While this may not greatly affect the course of the building boom for the rest of the year—due for seasonal slackening anyway—it certainly will cut building volume in the next. By tightening credit in these two fields, it is hoped to reduce inflationary pressures and thereby the need of early price controls.

The machinery for economic mobilization has been set up and is being oiled up. The big question is: Where do we go from here? The answer is that it is difficult to foresee anything but progressive use of the machinery as mobilization swings into high, and this will be spelled out in detail as 1951 wears on. Price controls may get a limited trial before then, on a highly selective basis, but will be applied more widely as inflation grows. And with it is bound to come some sort of wage control, no matter how stoutly opposed by organized labor.

Similarly, the priority scramble, once it develops, will make cutbacks in non-essential civilian output inevitable. Quite likely (*Please turn to page* 45)

Happening in Washington

Another "Little Steel" Formula?

By E. K. T.

STUDIES are being conducted to aid in determining whether there should be another "Little Steel Formula" applied to the current situation. That formula, it will be remembered, came into existence in 1942 when labor, management, and government were casting about for a satisfactory basis on which to adjust wages; it found that the cost of living had increased 15 per cent in the first year of World War 2, that "little steel" company employees were entitled to a matching pay increase. The formula became almost universally adopted—CIO, AFL, the huge railroad brotherhoods went along. .Naturally, John L. Lewis said the miners wouldn't be bound.

WAR LABOR BOARD was the agency for administration and it settled many labor disputes on the 15 per cent level. Operation of WLB marked the first large-scale project for adjustment of labor problems around a conference table at which representatives of workmen, management, and consumers sat with equal authority, their work supervised by government representatives. The Board policed labor's promise not to strike during the war, management's guarantee of no lockouts in wartime. While the subject of another "Little Steel Formula" is under study, Washington is toying with the thought of reactivating the WLB on the original pattern.

TREASURY search for new sources of federal revenue has turned attention again to taxes on state and municipal bonds, securities now in the exempt status. The Federal Reserve Board reportedly brought the issue up once more in a confidential report to the Banking Committees of Congress, urged enactment of the necessary legislation. It was too controversial to be included in the new tax bill although Senator Wayne Morse of Oregon, made a hard fight for it. The Oregonian will attempt to have it included in the excess profits tax measure, as a rider. Morse is up for re-election, considered a likely winner. In any event the project has other supporters.

FAILURE of the President to nominate and the Senate to confirm a new General Counsel for the National Labor Relations Board may cause serious complications or, at least, slow down the work of the board. The Fair Labor Standards Act (Taft-Hartley Law) provides that complaints which serve as the basis for NLRB hearings must be brought in the name of the General Counsel, that injunctions must also be sought by that functionary.

WASHINGTON SEES:

The fact that congress was recessing and not adjourning saved the country, this year, from the usual last-minute rush to push legislation through and the inevitable mass of partly digested bills which customarily find their way onto the statute books in closing days. The congressmen returned to their home districts able to say to pressure groups that their pet measures have not been discarded, merely postponed, can be taken up again in November. That is an especially helpful situation in an election year.

The determination of the legislators to get out of Washington come what may was present, however. Witness the House haste in rejecting President Truman's veto of the communist control bill—action taken on the same afternoon the 4,500-word veto message was received.

Except for the veto message, the President has been scoring regularly on Capitol Hill since the Korean situation broke. The first shock of war invariably whips congress into a mood of cooperation with the White House, and Mr. Truman was the beneficiary of the drive to close ranks. Probably he would have preferred to keep congress here while it was in that state of mind but the lawmakers have some business to attend to in the home precincts and the decision to go was theirs.

Recess means the congress is out of town but not out of reach. The vote to close shop until Nov. 27 doesn't preclude the President's authority to call the membership back should a crisis occur. It would have to be a crisis of major proportions to get the congress members back from the polling places.

As We Go To Press

Home construction and its financing will be among the first lines of business to feel the direct impact of federal commodity and financial controls. The regulations, which go all the way down to small loans for residential repair, strike the construction industry at a period of a new productivity high. Demand for new and used houses is flourishing, but realtors — who don't like the latest strictures — are inclined to agree scare buying has disappeared, prices are levelling.

Materials shortages which force official action cover a wide range, including rock lath, nails, cement, brick, lumber and copper. Tightness resulted from several causes: work stoppages, freight car shortages, inventory building, expansion of industrial plants to be ready for wartime orders, slow but steady flow of workers from building materials plants into other lines of manufacture.

On the financing side, Home Loan Bank Board has asked the 16 billion dollar savings and loan business to curb inflation in construction. These methods are proposed: cut the volume of homebuilding loans; adopt July 1 building costs (now used by FHA) as the basis of loan appraisals; support by advertising and other methods the campaign to increase personal savings. Aggregate effect of the several approaches — voluntary and compulsory — is expected to be a 1951 production of 600,000 dwelling units. The 1950 total is headed toward 1 million units.

State Department wishes the military publicists would devote more space and attention to the part being played in Korea by other nations, notably the United Kingdom. Desire isn't to play down the role General MacArthur is filling, or even to spread the glory. The issue goes diplomatically deeper: need is felt to overcome growing resentment against United States carrying the whole load in what is a United Nations crusade. State Department sees possibility United Nations Organization could lose popular support here, that financial aid to other countries might be challenged on the theory it hasn't brought practical benefits.

The situation is building support for creation of a United Nations Army, made up of "soldiers of fortune" although that designation is being carefully avoided. The movement has reached the stage of legislation, buried however under the weight of more immediate problems on Capitol Hill. Such an army would have to be created by joint action of interested nations, acting within the framework of the United Nations Organization.

It has been no secret that the National Association of Manufacturers is big business, both operatively and in the public view of its interests. Yet figures given to congress in a reluctantly supplied lobby statement are staggering. They'll be repeated over and over again in union halls and from campaign platforms, used whenever other lobbies are classed as wealthy. (NAM, as a matter of fact, doesn't admit it's a lobby, is challenging that classification in the courts.) The organization had 1949 receipts of 4.480 million dollars, spent 4.287 millions — only a fractional part of that amount to present a position on pending legislation.

Congress isn't quite certain yet what it wishes to do about the future of Reconstruction Finance Corporation. In an apparent oblique attack, adjournment found President Truman's recasting of RFC stalled by refusal of the senate to move on to ratification the nomination of five new directors. Confirmation of the nominees, foes of the agency point out, might give color of indorsement to RFC as a going agency whose purpose has not been fulfilled.

That group contends the department is competitive, needlessly so under present conditions, with private enterprise. And there is another bloc that would prefer to

do nothing about new personnel until the sitting directors have been subjected to examination before congressional committees. On the way out, the retiring officers might incline less to the contention that RFC still is needed. At least some senators think so.

Lacking the dramatic sides that invite headline-grabbing speeches, the Hoover Commission plan to streamline record keeping and audits of government agencies has been indorsed by congress and signed into law by the President. The "task force" report which was the basis of the commission report and which impressed Mr. Truman (probably because of his experience with government bookkeeping during his chairmanship of the war contracts investigating committee), directs the Comptroller General to standardize accounting practices, simplify and speed auditing. President Truman labels the reform the most important one affecting federal fiscal affairs to come out of the Hoover Commission.

The "front men" or big names in the control agencies are standing pat on their program of avoiding allocations and ceilings where possible, moving in slowly and on a piecemeal basis where the pinches are being felt, but the "desk men" who prepare the essential data are prodding for faster action. Fundamental difference between the two is that the men who sign the orders usually think in terms of day-to-day developments, the fact finders look farther ahead, lean to the school of "prepare for tomorrow." Wages and prices continue to beat each other around the bush and the government economists hear that several industries are planning new rises to be announced soon. Reason given in each case is increased production costs — wages.

Senate investigation of food price advances will be pushed with vigor. Underlying purpose is political; and it's timely with elections near at hand. Women's clubs are especially active in this field, a favorite one for them. The senators will put on the appearance of outraged indignation, browbeat witnesses from the foods industries. Some incidental benefit may come to consumers as the trades slow price rises, to avoid congressional lashing. But the solons know the cure is in federal controls, not in committee hearings. And they haven't any "legislative purpose" in mind. It's principally an "act."

British circles in Washington are buzzing with talk of the recent test of the Labour Government and its narrow squeeze through to victory on nationalization of steel as of Jan. 1, 1951. Despite loose talk by radio commentators and others, there wasn't an outside chance of the Attlee government losing. The Prime Minister wasn't forced into the issue whether the steel industry would be taken over next January, or in the following January (the law leaves no alternative except as to date of the switch); he had made a careful count of his strength, then went ahead. Real tipoff to the government's confidence was the fact that three members of the House of Commons, Attlee adherents, were allowed to come to the United States just before the vote was taken.

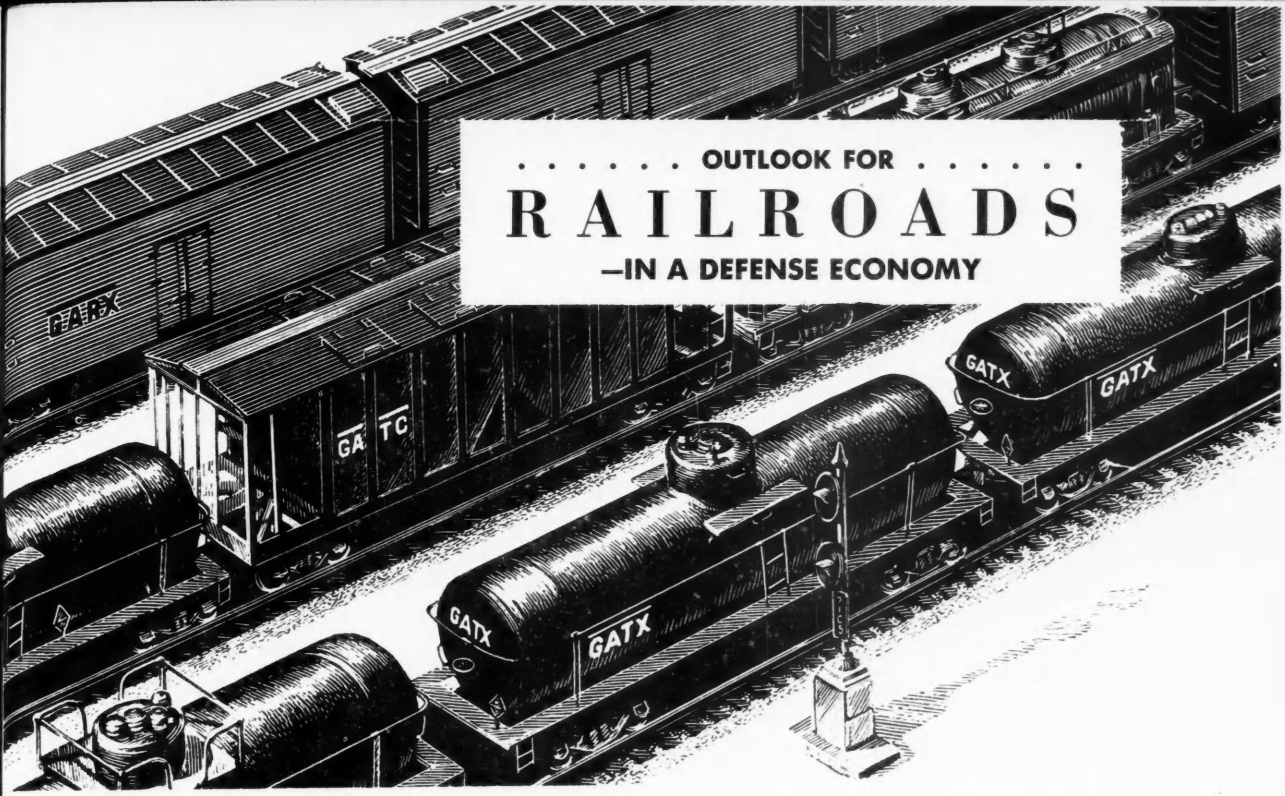
But the speculation doesn't have to do with results of the vote, but as to what it augurs. Conservatives contend this is a bad time to disrupt the industry, that the war effort could be impeded by placing bureaucrats in charge of steel production. Labour Government men find a more practical side: to continue as an effective administration, Labour must have the support of many members of Commons who are far to the left. They have been clamoring for speedy nationalization and were in the market for a trade — offering their votes on such subjects as conscription and funds for war in return for grabbing the steel plants. Therefore, they say, the act strengthens the war effort.

Just as those closest to the issue had thought right along, unity of American Federation of Labor and the Congress of Industrial Organizations is not in the cards for this year. When William Green, AFL president, failed to mention the project, place it on the agenda for the September convention in Houston, all bets were off. AFL and CIO are united politically for the forthcoming campaign, supporting Administration candidates across the board. But the brotherly love act ends there.

. . . . . . OUTLOOK FOR . . . . . .

RAILROADS

—IN A DEFENSE ECONOMY



By ROGER CARLESON

In the railroad industry, over the last decades, a strange, yet beneficial metamorphosis has occurred.

While mileage and equipment in use have decreased steadily and while handicaps of regulation, costs and top-heavy capitalizations created severe problems during much of the period, the industry increased its property investment by more than 60%, its traffic (in originated revenue tons) from around one billion tons to more than one and one-half billion, and through growing emphasis on efficiency was able to maintain its place as a vital force in our economy.

Of course, the establishment of sustained prosperity in the industry is dependent, as the very essence, on a large volume of traffic; yet even if there are cyclical fluctuations in business, as there always will be—basic trends in our economy are now such as to indicate that volatility of railroad traffic has been greatly reduced.

To appraise the railroad situation properly and from all aspects, and to obtain a clear understanding of the indispensable position which the industry occupies, the investor must know something of past problems and how they have been solved.

For practical purposes it is not necessary to go back farther than the time after the end of the World War I, when government operation ceased and private ownership was restored. From that time until just after the 1929 market collapse, high earning power was the rule and because railroad credit was excellent capitalizations were expanded, mostly through new bond issues which made the load unbearable when the depression of the 1930's set in.

As recently as 1939, receivership or bankruptcy gripped 38 Class 1 roads. These represented more than 30% of all rail mileage operated, more than 23% of the total investment in road and equipment, and about the same percentage of the combined capitalization of all rail transportation systems.

The industry, still geared in that period to the prosperity era of the 1920's, found it could not overcome the basic weaknesses which resulted from general depression, loss of working capital caused by excessive dividend payments and heavy charges on debt, and the deterioration of certain traffic bulwarks under competition from trucks, pipe lines, inland waterways and, finally, the development of air lines. Freight rates could not be increased advantageously in a depression period and passenger business was becoming steadily more unprofitable.

The process of rehabilitation in the industry was, in a way, forced because of the great slashing of capitalizations required under completed reorganization cases, but was accelerated on a voluntary basis by the solvent systems which used large earnings resulting from the second World War to buy up their own debt and take necessary steps to rebuild their plant and equipment.

Long Term Debt Reduction

Accordingly, Class 1 roads, which at the end of 1929 had funded debt of $10,638,000,000, now have debt of only about $6,852,000,000, while in the same period, investment in property advanced from $26,000,000,000 to more than $30,000,000,000.

The industry indeed emerged from the receivership era with a new vitality that was extended further through its own efforts in meeting the serious transportation problems of World War II when it was demonstrated that it could handle an extraordinary traffic load without breakdown.

Admitting that other modes of transportation have cut deeply into traffic, the position of the railroads

remains one of major importance. Measured in ton-miles, the industry still handles from 60 to 65% of the country's freight and more than 50% of all intercity passenger business.

Employing more than a million workers, the industry's wage bill in 1949 was $4,419,000,000; it purchased in the same year approximately $564,000,000 of fuel, $455,000,000 of iron and steel products and $967,000,000 worth of equipment.

Traffic, as already stated, is the crux of the industry's prosperity. There can be no other key, no magic wand, to bring in revenues and enable individual carriers to meet their bills and pay interest on bonds and dividends on stock.

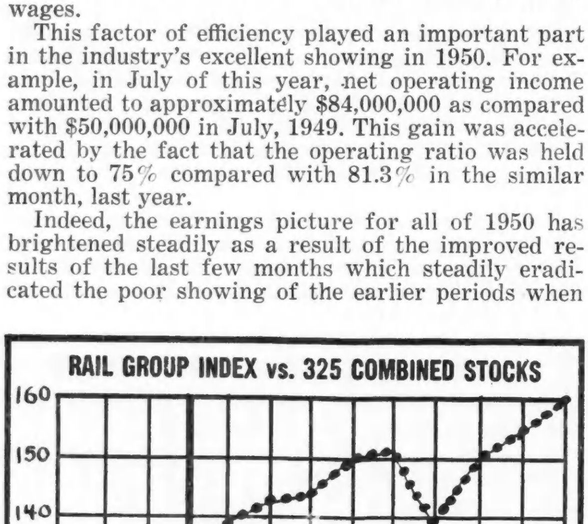
Freight Business Dominant Profit Factor

Insofar as normal operation is concerned, freight business has always been the dominant factor in determining profits. In the early 1920's some 71% of gross was derived from the handling of freight, about 21% came from passenger transportation, while the remainder was from miscellaneous services. This ratio has diminished to a point where passenger business now contributes less than 10% of all Class 1 gross, and freight revenues more than 83%.

Doubtless, the most notable change has been the replacement of the steam locomotive by diesel engines. Thus, while the number of locomotives and freight cars in use has diminished, the actual movement of freight, carrying capacity and tractive power have expanded sharply. It is largely through this and other forms of enhanced efficiency that the roads have been able to offset the effect of steadily rising wages.

This factor of efficiency played an important part in the industry's excellent showing in 1950. For example, in July of this year, net operating income amounted to approximately $84,000,000 as compared with $50,000,000 in July, 1949. This gain was accelerated by the fact that the operating ratio was held down to 75% compared with 81.3% in the similar month, last year.

Indeed, the earnings picture for all of 1950 has brightened steadily as a result of the improved results of the last few months which steadily eradicated the poor showing of the earlier periods when strikes took a serious toll.



Figures beyond June for the entire industry are still incomplete. However, according to latest official estimates, Class 1 net income for the first seven months of the year came to $269,000,000, up from $201,000,000 in the corresponding term of 1949, with July net at about $59,000,000 as against only $26,000,000 in the same month of 1949.

Still later estimates place railroad operating revenues for August, 1950, about 18.3% higher than in August of last year, the dollar total being put at $712,571,000. Freight traffic for the month is given as about 22% ahead of the like month of 1949.

Under the circumstances, it now appears likely that the industry's combined gross for all of 1950 will exceed $9,000,000,000 while net income may approximate $610,000,000. This would compare with $8,580,300,000 gross and $438,100,000 net, reported for the full year 1949.

If attained, total operating revenues would be the largest for any peacetime year in history with the single exception or 1948. Net income too, with very few exceptions, notably 1948, would surpass that of any earlier peacetime year.

As matters stand, and assuming that industrial production continues to hold around prevailing levels, accelerated by the approach to a war economy, the outlook, even well beyond the remainder of 1950, strongly favors investors who have taken a constructive view of the market for railroad securities.

No revenue or earnings figures or estimates, beyond August, are available. However, all Class 1 carriers, in the week ended September 9, last, handled 1,393,412 carloads of revenue freight. This represented a gain of 21.7% from the corresponding week of 1949, lifting the cumulative total for the first 36 weeks of 1950 some 3% over the similar term, last year.

Although the latter increase, on the surface, hardly appears to be outstanding, nevertheless it is noteworthy if one considers the steady downtrend in railroad traffic during the forepart of the year, and the almost complete cessation of coal shipments caused by work stoppages at the bituminous mines.

The showing of some individual carriers appears even more promising. As the accompanying tabulation indicates, a number of roads for the first 7 months of the year had earnings which nearly equalled their per share net for the entire 1949 year. When their August reports are released the comparison will show up in even brighter colors.

Good Earnings Increases Indicated

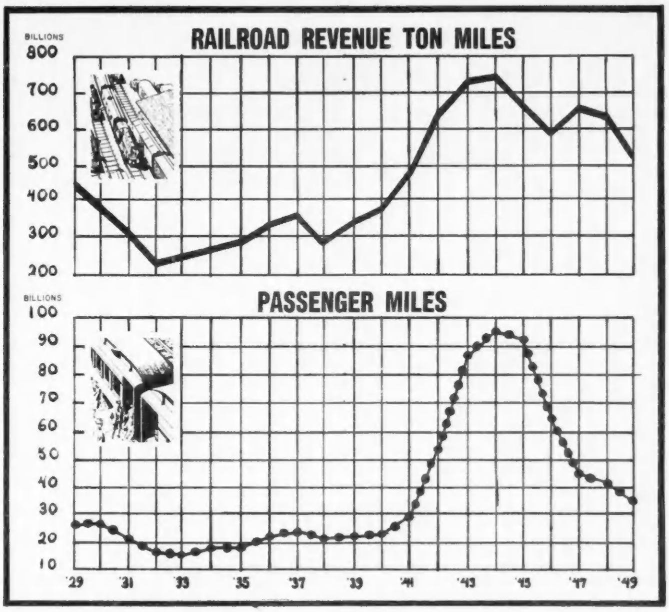
Some radically speculative rails which seem likely to show pretty good 1950 earnings, against 1949 deficits, include Baltimore & Ohio, Central of New Jersey, Chicago & Eastern Illinois, and Chicago & North Western. Better-grade rail stocks likely to have 1950 earnings gains of some 50% to 100%, or more, include Atlantic Coast Line, Chesapeake & Ohio, Burlington, Delaware & Hudson, Louisville & Nashville, New York Central, Pennsylvania Railroad, Reading, Seaboard Air Line, Southern, and Virginian.

Purely on a price basis, and from a speculative standpoint, low-priced stocks of the Eastern carriers seem to be the more reasonably-priced at the moment, especially in view of impending favorable dividend action. New York Central, Erie, Pennsylvania and Baltimore & Ohio preferred deserve special attention in their price class.

Atchison, Topeka & Sante Fe, which recently increased its quarterly dividend to $2 a share and in addition, announced at $2 extra, represents outstanding value among investment grade rails. Lehigh Valley, entirely relieved of its debt maturities, and showing a steady uptrend of profits, should not be overlooked by traders seeking special situations in the very low-priced category.

Enjoying more speculative popularity than in several years, the rail stocks seem more responsive to sharply higher interim earnings than to "peace scares." At the moment, they are by far the best-acting group. Higher earnings are a fact, and likely to continue as the tempo of rearming increases. While bigger net in some cases may mean relatively little to rail dividends, some boosts are probable. On the other hand, new wage demands will come in due time.

The tax prospect may or may not be as favorable to rails as the market assumes but their EPT shelter is relatively attractive and this has a good deal to do with the latest popularity of rail securities. The latter indubitably are "back in vogue" and there are concrete reasons for it. They should fare rather well in a defense economy.



This despite the fact that certain differences between the early future and the pre-World War II period must be weighed. Although a full-fledged rearmament program will be certain to affect traffic and earnings materially, military output must largely replace production for civilian use.

Statistical Position of Leading Railroads

	Net Per Share		Dividends		†Yield	1950	Recent
	1949	7 mos 1950	1949	Est. 1950	%	Range	Price
Atchison, Topeka & Santa Fe	$ 18.06	$ 11.27	$ 8.00	$ 8.50	6.03	133⅝-100⅛	132
Atlantic Coast Line	9.39	8.91	4.00	4.00	6.90	59¼- 41	58
Baltimore & Ohio (a)	def. 0.59	0.03	......	......	......	14½- 9	14½
Canadian Pacific	1.93	1.12	1.25	1.25	6.49	19⅞- 13⅝	19¼
Chesapeake & Ohio (a)	1.36	*2.67	3.00	2.00	6.35	32 - 25	31½
Chicago, Milwaukee, St. Paul & Pac. (a)	def. 0.87	Nil	......	......	......	13⅜- 7⅛	12½
Chicago & North Western (a)	def. 5.44	Nil	......	......	......	17½-11	17½
Delaware & Hudson Company	2.85	3.12(b)	4.00	4.00	9.76	41¾- 29⅝	41
Erie Railroad	0.93	*2.46	1.00	1.00	5.88	17⅜- 10⅝	17
Great Northern Pfd.	6.05	def. 0.91	4.00	3.25	7.65	44¼- 33	42
Gulf, Mobile & Ohio (a)	2.61	1.48	0.50	1.00	5.88	17½- 12⅞	17
Illinois Central	11.20	6.65	......	3.00	5.88	51⅞- 34¼	51
Kansas City Southern	12.54	6.00	4.00	4.00	7.34	57½- 43	54½
Lehigh Valley (a)	0.02	0.29	......	......	......	9⅝- 4¾	9⅝
Louisville & Nashville	3.52	3.93	3.52	3.52	8.06	45⅜- 34½	43½
Minneapolis & St. Louis	2.18	1.34	1.00	1.00	6.78	14⅞- 10½	14¾
New York Central	1.51	0.11	0.50	1.00	5.80	17¼- 11½	17¼
New York, Chicago & St. Louis	30.56	28.75	......	......	......	153½- 90	152
Norfolk & Western	3.56	2.35	4.00	4.00	7.84	53⅜- 43½	51
Northern Pacific	3.93	0.20	1.50	1.50	6.06	24⅞- 17	24½
Pennsylvania	0.95	0.76	0.75	1.00	5.00	20¼- 14½	20
Reading	2.21	2.14	2.00	2.00	7.69	26¼- 20	26
St. Louis-San Francisco (a)	2.02	1.37	1.00	1.00	6.06	16⅝- 9⅞	16½
Seaboard Air Line (a)	4.90	5.30	1.50	2.25	5.92	39⅜- 20	38
Southern Pacific	8.08	5.30	5.00	5.00	8.06	62½- 49	62
Southern Railway	6.87	5.60	4.00	3.00	6.82	44⅛- 32¾	44
Texas & Pacific	9.73	6.80	4.00	4.00	6.38	62¾- 44	62¾
Union Pacific	10.26	5.55	6.00	6.00	5.97	100¾- 81	100½
Virginia Railway	1.57	1.73	2.50	2.50	7.75	32¼-27¼	32¼

*—Eight months.
†—Based on estimated 1950 payments.

(a)—On an "available" basis.
(b)—Railroad corporation only.

Better "Flying Weather" For AIRLINES
—As Growing Pains Ease

By H. F. TRAVIS

The world's fastest and most modern form of transportation directs its principal appeal to the passenger market—which, as everyone knows, is comparatively small in relation to freight traffic. In studying this interesting subject and evaluating prospects for securities representing various types of transportation, it is important to gain a proper perspective. Airlines account for only a small proportion of passenger business and for an insignificant part of total freight movement.

Air transportion enjoys great advantages over other means of moving from place to place, however, and all indications point to continued steady growth in popularity as well as in volume of business handled. While further gains are to be expected at the expense of railroads, no one expects aircraft to supersede surface lines in the foreseeable future. The plane has its limitations and in spite of tremendous technological progress, is at a disadvantage in competing for short-haul passenger traffic as well as for bulky freight shipments. Airlines present a strong competitive appeal chiefly in transporting passengers or freight over long distances where speed is important.

Before considering recent developments in air transportation, particularly the effects of the Korean hostilities, it may be well to examine a few relevant statistics comparing airlines with railroads to see how these two competing types divide the available market. Government records show that airlines operated approximately 142,400 route-miles in this country at the end of last year. This figure, which does not include overseas operations, probably has been enlarged moderately.

Railroad mileage is not quite double the airlines' total, amounting to approximately 225,400 miles. Reflecting an increase of about 14 per cent, airlines' revenue passengers approximated 14 million last year, but this total was only about 2.5 per cent of total revenue passengers carried by railroads.

In long-haul passenger movement, however, airlines have won a larger share of the market. This fact shows up in comparing revenue passenger-miles—that is, total passengers per mile. Here it is to be noted that airlines handled 19 per cent of the passenger-miles accounted for by railroads. In 1948, the ratio of airlines' passenger-miles traffic stood at 14 per cent and a year earlier it was 13 per cent, so that it may be seen that travel by air, especially over longer distances, is experiencing steady growth. At the same time, rail passenger business barely is holding its own.

Airline vs. Rail Travel

Comparison of airlines' passenger business with that moving by Pullman—in other words, division of the long-haul market—shows up more favorably for the newer form of transportation. Here it may be observed that approximately 14 million persons used planes last year, compared with 23.2 million passengers using first class railroad accommodations. This compilation indicates that airlines have captured about 36 per cent of the first class travel market, serving approximately 60 per cent as many passengers as used Pullmans last year. On a mileage basis, it is to be noted that the ratio of air passenger miles to Pullman has climbed to 70.3 per cent from 53 per cent in 1948 and as low as 12 per cent five years ago.

Below is a tabulation showing postwar growth in air travel as compared with first class railroad travel (000 omitted):

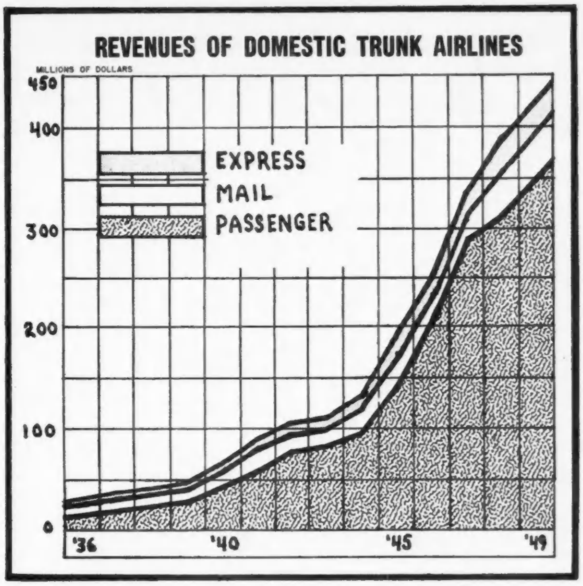
	Passengers		Ratio Air Passengers to	Ratio Air Passenger
	Airlines	Railroads	1st Cl. R.R.	Miles to R.R.
1949	14,021	23,158	60.54%	70.30%
1948	12,324	27,546	44.74	53.02
1947	12,278	30,615	40.10	49.03
1946	11,890	43,750	27.18	38.91

Examination of statistics discloses fairly conclusively that airlines compete with railroads chiefly for the first class long distance travel market, which, of course, is the most desirable and most profitable. As for freight, airplanes cannot hope to compete with railroads and trucks except for relatively light shipments—the value of which can absorb high air freight costs.

Although the military importance of airlines has been cited as a reason for a sympathetic attitude on the part of regulatory authorities—that is, a virtual guarantee against financial difficulties—, the nation's principal lines no longer are dependent on Government aid in form of so-called mail subsidies. Despite general belief that mail revenues sustain profitable operations, statistics compiled by the Civil Aeronautics Administration disclose that mail payments comprise a relatively small portion of revenues. Last year, for example, mail revenues received by domestic trunk lines approximated $47.4 million, while passenger revenues came to $363.7 million and freight revenues contributed $25.7 million, a total of $444.8 million.

These figures, supported by other data, refute the charges that air transportation is dependent on Government subsidies. The industry is on a sound basis, although there does appear to be justification for official supervision to prevent enthusiastic competition that might lead to financial distress for some of the smaller feeder lines. Major trunk lines probably could weather any difficulties that might arise without need of special consideration. Favorable mail rates have been authorized for several small lines serving sparsely settled areas where regular traffic is not yet sufficient to provide adequate revenues. Generally speaking, however, all certificated routes have fared reasonably well in the last year or two.

Judging from experience in World War II, the air transportation industry might be expected to benefit from an all-out war economy. Thus far, the industry has felt the impact of Korean hostilities only slightly. Immediately after trouble began in the Far East, Government authorities requisitioned about 45 four-engine planes for military service, but many of these since have been returned. Revenues from Air Force charter may be expected to contribute to revenues for the September quarter. Moreover, withdrawal of these planes tended to curtail less profitable coach service to some extent and to build up the load factor for major trunk lines.



Speed-up of military preparations, finding reflection not only in extensive shifting of Army and Air Force personnel but also in increased civilian travel, may be expected to spur revenues and profits. Improvement in the load factor should boost operating profits in the second half of the year despite another advance in labor costs. Passenger business seems certain to reach a new high record in the number of persons carried as well as in passenger-miles flown, but the increase in revenues and in earnings is unlikely to be commensurate with traffic gains. A substantial part of the latter has been derived from coach service carrying lower fares.

The number of passenger-miles recorded by sixteen domestic trunk lines for the first half of year showed an increase over last year of about 12 per cent, suggesting that the total for this year easily might exceed 7 billion for a new record, compared with the 1949 peak of (*Please turn to page* 42)

Pertinent Statistics on Leading Airline Companies

	Total Operating Revenues 1949	Total Operating Revenues 1st Half 1950	Operating Ratio* 1949 %	Operating Ratio* 1st Half 1950 %	Net Per Share 1949	Net Per Share 1st Half 1950	Dividends 1949	Dividends 1950 To Date	Recent Price	Price Range 1949-50
	——($ million)——									
American Airlines	$103.2	$ 51.7	90.8%	Not available	$ .79	$ .27	.....	$ .25	11¼	12⅜- 6¾
Braniff Airways	18.4	9.8	97.5		.22	.40	.....	.....	8⅞	10⅝- 6⅛
Capital Airlines	26.9	13.4	95.1		3.51	.74	.....	.....	10¼	12 - 5¼
Eastern Air Lines	69.7	34.1[1]	94.5		.82	1.03	.....	.....	15⅝	13 -17
National Airlines	12.6	15.9[2]	99.8		.04	.56[2]	.....	.....	9⅛	9¾- 5
Northwest Airlines	40.5	21.3	96.2		1.11	[d]4.48	.....	.....	10⅝	13 - 7
Pan American World Airways	137.2	71.5	97.3		.41	.....	$ .25	.....	9⅛	11 - 8
Trans World Airlines	105.9	50.9	93.3		1.53	.59	.....	.....	17¾	20⅞-10
United Air Lines	91.5	44.3	93.7		.88	[d] .13	.....	.....	16⅞	18¾-10¼
Western Air Lines	11.5	6.6	91.6		.82	.36	.....	.....	9	10¾- 5

[d]—Deficit.
[1]—5 months May 31, 1950.
*—Percentage of Operating Expenses to Operating Revenues.
[2]—Year ended June 30, 1950.

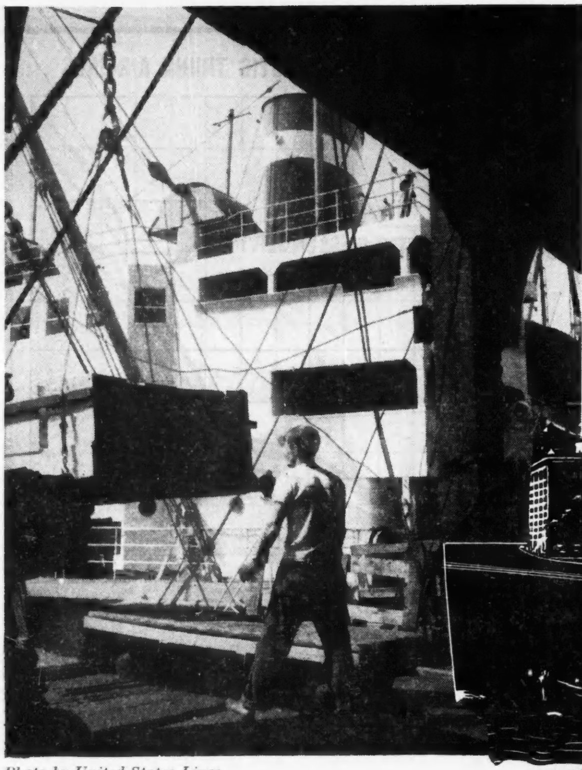
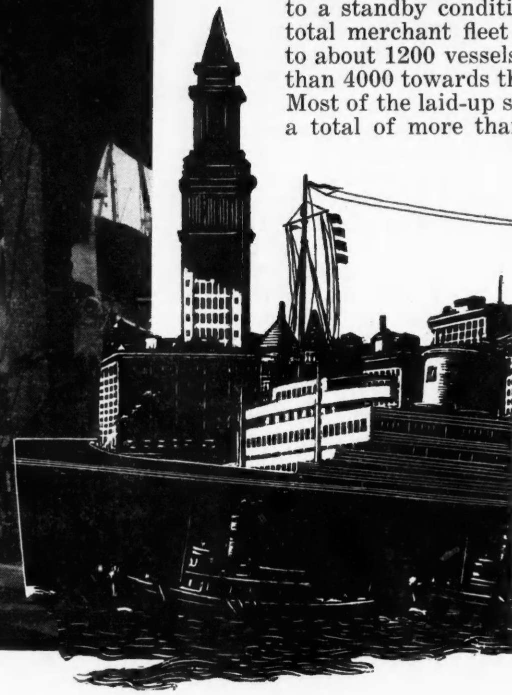


Photo by United States Lines



Will SHIPPING LINES Benefit from Defense Effort?

By GEORGE W. MATHIS

The vital importance of marine transportation in either a war or peace economy has been brought sharply to the fore as a result of the Korean crisis and the increasing magnitude of the defense program. In consequence, some badly needed new life will likely be injected into our national shipping industry, deteriorating ever since the end of World War II.

The impact of increasing foreign competition has been clearly revealed by the circumstance that in 1949, American vessels carried only 36% of dry cargo exports and imports as against 50% in 1947. Considering that 50% of all ECA shipments had to be carried in American bottoms, this downtrend in shipments has been discouraging. The number of active American merchant ships relative to the world total has also diminished at a disheartening pace, with the percentage declining to a meager 13% by the middle of last year compared with 36% shortly after the end of World War II. What's more, the trend has continued downward in the current year.

In theory we still have a very large merchant fleet, if all the "mothballed" ships left over from the last war are counted in. Allowing for these and the increasing number returned to the Government when their operation proved unprofitable for private lines, there were recently as many as 2,277 vessels relegated to a standby condition. By mid-1950, our total merchant fleet in service was down to about 1200 vessels compared with more than 4000 towards the end of the last war. Most of the laid-up ships, however—in fact a total of more than 1500 – are the old "Liberties" that are slow and very costly to operate, with only about 300 representing the somewhat improved "Victory" ships.

Despite heavy Government subsidies, many foreign governments have offered more liberal assistance to their shipping lines, helped to construct many fast and economically operated cargo vessels – in a period when their wage rates were far lower than ours. This kind of competition has created a serious dilemma for American shipping lines.

Since Korea and the enlarged program for rebuilding the military structure of ourselves and our Allies, the outlook for our domestic shipping lines has brightened considerably, with a good prospect that the 82nd Congress will take steps to enhance still further their operating potentials. From June 25 to the third week in August, the Government "de-mothed" about 130 vessels from its large reserve fleet to convey troops, munitions and supplies to the hard pressed Korean front, and wisely left their operation to the experienced private ship operators, of whom about 36 participate in the program. Additionally, Washington took over nearly a hundred active vessels leased to or owned by private lines.

The Navy's Military Sea Transportation Service charges the private operators around $400 a day for the reserve ships, but in turn pays an average of about $1400 a day for their operation, beside assuming the cost of fuel, war area bonuses for the crew and any added war risk insurance. After allowing for normal crew wages, food and other operating expenses, it is estimated that the private operators can earn around $100 a day, not a very munificent amount to be sure, but not to be deprecated when a number of ships are involved, or as an offset to steadily shrinking earnings from ordinary activities.

Now that the Korean emergency has underlined

the pressing need for revitalizing our merchant marine in both the cargo and passenger divisions, and the fact that much better shipping facilities will be required to assure implementation of the rapidly expanding military program, it seems almost inevitable that the Government will take further steps towards this end, although only partial headway will be possible before early next year when the new Congress convenes. The labor unions, who recently had 40,000 seamen out of jobs, have already closed ranks with the shipowners to exert pressure on Washington for bigger subsidies, as well as to lend large-scale assistance in the construction of modern, fast vessels to meet foreign competition. They are pointing with strong arguments to the fact that while the rest of the world has rebuilt its merchant fleets vigorously in postwar, only three new American vessels were launched in 1949, and that prior to Korea only eight were planned to be built, by far the larger portion passenger ships.

Federal Funds For Naval Construction

Before Congress recessed, however, it granted President Truman an appropriation of $250 million for naval construction, some portion of which probably could be used for building new cargo vessels. Current reports suggest that at least 50 cargo ships are planned that could outdistance or dodge any lurking submarines in the event of war, or prove valuable in speeding up shipments for foreign aid. These ships also might be utilized to carry imports from all areas in the world for the increased Federal stockpiling program.

Since the present laws provide that the NMTS can use Government-owned ships for these purposes only if private operators are unable to handle the business, the chances are good that any new cargo ships to be constructed will be jointly built by the Government and private concerns, or operated by the latter under subsidy terms. Pressure is also intensifying to permit American vessels to carry a larger portion of ECA shipments than the 50% now required by law.

Liberalization of subsidy terms may seem entirely logical to Congress in view of the emergency and a record that reveals many shortcomings in their present application. The Maritime Board negotiates separate subsidy contracts with operators of ships in foreign service, normally covering a ten-year period, but the smallest item in the entire Federal subsidy program is aid for merchant ship operation. The Government, furthermore, shares only in the profits, leaving the problem of profitable operation wholly up to the private managements. The Maritime Board is entitled to recover one-half of the amount by which ship earnings exceed 10% per year on the capital invested in operating the ships.

This arrangement might have seemed fair under conditions prevailing when it was first set up, but the steadily rising cost of ship operations in postwar has minimized the presumptive benefits. In 1949, the Maritime Commission collected more than $27 million from ten holders of subsidy contracts, representing recapture of subsidies applicable to operations prior to 1943. Percentagewise, these payments represented 90% of the subsidies paid by the Government in the period. Thus it will be realized that subsidies can hardly be rated as gifts.

An encouraging element in the picture now is that new subsidy contract terms for the next ten years seem certain to allow for the increasing squeeze of foreign competition. In coastal trade, full protection is afforded domestic ship operators by complete elimination of foreign vessels in this traffic. In overseas shipping, though, the situation is quite different, and in the current year the devaluation of foreign currencies has given the ship owners in many countries a 30% advantage over ours as to wages, port charges and freight rates. As these operating differentials are figured annually by the Maritime Board at the end of each year, it is obvious that they will have to make some substantial adjustments by January, 1951, and that Congress should readily provide higher subsidy funds.

Operating and Earnings Trends

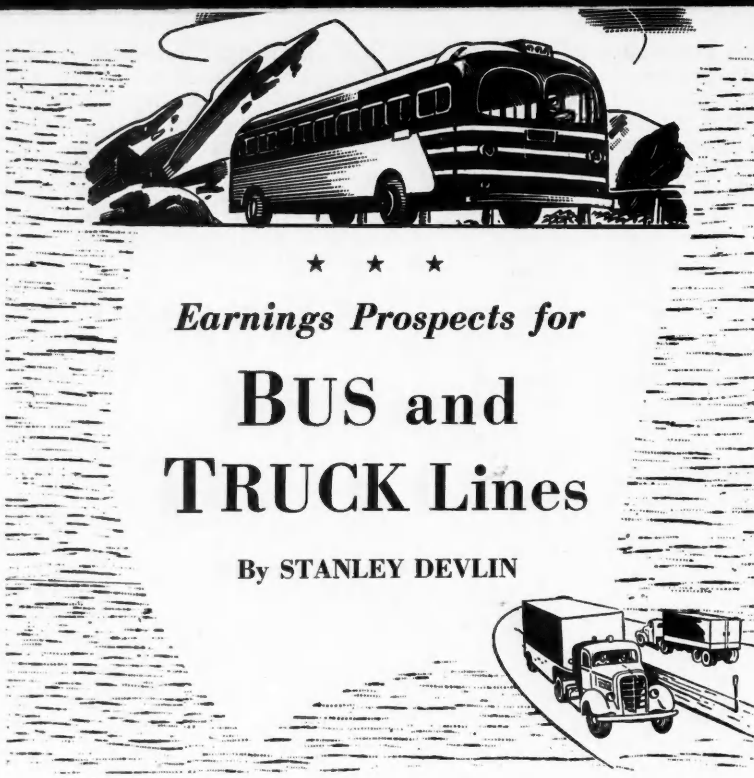
The shares of relatively few large ship operators are listed on the stock exchanges, narrowing their choice substantially for investors. On the appended table we present statistical data pertinent to five of the leaders. A brief discussion of the operations of these individual lines may clarify some of the peculiar handicaps and advantages they experience. As regards net earnings of all these companies, allowance must be made for possible future revisions that may result when the Maritime Board finally determines the actual amount of subsidies they claim should be recovered, or additional sums they are willing to pay.

Moore-McCormick Lines, Inc. provides freight and passenger service between Atlantic and Pacific ports and South America, as well as between New York and the Scandinavian countries, Poland and Russia. The company operates 34 cargo vessels and three chartered "Good Neighbor" passenger vessels plus one tanker. How importantly annual changes in exports and imports to and from the areas served, are shown by the company's (*Please turn to page* 42)

Statistical Data on Leading Steamship Companies

	Revenues 1949	Revenues 1st Half 1950	Net Income 1949	Net Income 1st Half 1950	Net Per Share 1949	Net Per Share 1st Half 1950	Div. 1949	Recent Price	Yield†	Price Range 1949-50
	($ millions)									
American Export Lines	$ 42.4	$	$ 5.9	$ .5	$ 4.98	$ .45	$ 2.00	19	10.5%	24½-13¾
Amer. Hawaiian Steamship	27.4	10.0	.5	.2	1.40	.71	3.00	45	6.6	45¾-34
Atlantic, Gulf & West Indies	12.9	4.9	.3	.4	.38	1.93	......	79½	......	80 -53
Moore-McCormack Lines	71.1	......	5.2	1.4	3.43	.97	1.50	14¾	10.2	15⅞-10⅜
United States Lines	84.6	......	5.5	1.3	3.62	.86	2.00	16¾	12.0	18 -11¾

†—Based on 1949 dividend.



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Earnings Prospects for

BUS and TRUCK Lines

By STANLEY DEVLIN

The operators of truck and long distance bus lines have been steadily encroaching on the business of the railroads, in fact to a greater extent than many investors might assume. This is especially true as regards passenger traffic, but more than 1400 trucking concerns covering the entire country are capturing a surprising amount of freight also. One large passenger motor line alone last year accommodated more than 200 million travelers, while motor trucks hauled about 16% of the nation's freight. Shares of companies in these specialized fields, though, are quite speculative for a number of reasons, hence unusual selectivity is essential for investors.

Aside from heavy competition, rapid depreciation of expensive equipment, rate controls imposed on common carriers, burdensome state taxes and rising operating costs are a few basic handicaps continually facing the managements of interstate truck lines. As an offset is the advantage of originating traffic to and from localities not directly served by railroads, or because of proven economies to customers from factory-to-distributor shipments. Warehouse fees also contribute substantially to operating revenues. But profit margins normally are pretty thin in this business, and large volume is needed for satisfactory operations.

Under current high level industrial activity, several big trucking concerns are faring rather well, and because of the stepped-up military program should continue to report stable earnings. Freight volume transported by motor carriers in July gained 34.2% over the same month a year earlier. Haulage of petroleum products, iron and steel, together with a long list of miscellaneous freight, shared in the gains. More than 4.1 million tons of freight were carried by motor vehicles in July.

Among the larger trucking companies is U. S. Truck Lines, with a favorable long term record for stable earnings. This concern engages in intercity motor freight transportation between important centers in Michigan, Ohio, West Virginia, western New York and parts of Pennsylvania. Extensive traffic is handled by a large fleet of special trucks and trailers, while local cartage activities are conducted in nine large cities from the Midwest to the Pacific. Numerous warehouses are maintained at various points.

U. S. Truck Lines shows evidence of good management and an established business, as shown by profitable operations in each of the past 18 years. Capitalization of 515,000 shares of common outstanding is simple, and dividends have been paid regularly since at least 1936. Net earnings of $1.54 per share in the first half of 1950 covered the 60 cents semiannual dividend by an ample margin. The shares are unlisted, but "over the counter" are quoted around 14¼, to yield 8.4%.

Associated Transport, Inc. operates a motor freight system covering (*Please turn to page* 45)

Leading Bus and Trucking Companies

	Revenues 1949	Revenues 1st Half 1950	Net Income 1949	Net Income 1st Half 1950	Net Per Share 1949	Net Per Share 1st Half 1950	Div. 1949	Recent Price	Yield†	Price Range 1949-50
	($ millions)									
Associated Transport	$ 28.6	$	$ 1.4	$ 1.3	$ 1.90	$ 1.74	None	10	......	3⅝-10¾
Greyhound Corp.	184.1	82.1	11.5	3.8	1.22	.40	$ 1.00	10½	9.5%	12 - 9½
Southeastern Greyhound	20.0	8.4	1.4	.3	1.37	.35	1.20	12¼	9.8	14⅛-11
U. S. Freight	72.0	35.0	.6	.4	2.06	1.34	1.00	18⅛	5.5	18⅞-12⅞
U. S. Truck Lines	17.9	......	1.2	.8	2.34	1.54	1.20	14¼	8.4	15¾-11¼

†—Based on 1949 dividends.

Efficient assembly line operation is bringing air conditioning within the reach of the broader public, opening up vast sales potentials for the future.

CARRIER vs. YORK Corporation

—A COMPARATIVE STUDY OF TWO PIONEERS IN A GROWTH INDUSTRY

By H. S. COFFIN

For several decades in the past, the refrigeration and air conditioning industry was a struggling business producing negligible and often disappointing results from an earnings standpoint. In the last ten years, however, growing pains have eased with the industry displaying progressive vigor and potentials widening impressively.

For this reason, special interest attaches to the two pioneer companies under discussion which due to numerous early mergers for many years had the field virtually to themselves. As frequently happens, failure to produce quick or substantial profits in new fields apparently discouraged new entrants quite effectively. This however is no longer the case.

A number of large concerns including General Electric, Westinghouse, Chrysler, Philco and others have come to recognize the growth potentials not only of refrigeration, but particularly of air conditioning, and have entered the field in aggressive manner. Yet the accumulated know-how of Carrier and York Corporation, plus their greatly improved and enlarged productive facilities, promise to sustain their dominant positions in no small degree, an important factor now that earnings of both companies have begun to push upwards in what seems to be the incipient phase of a long term rise.

It was World War II that really provided the spark for the amazing growth in air conditioning. For years prior to 1940, refrigeration rather than over-all temperature control has been the mainstay of the business and demand stemmed chiefly from industrial sources. With the outbreak of war, however, the scope of demand for air conditioning broadened almost spectacularly. In contrast to its former reputation as a luxury, temperature control became a "must" in every war plant seeking utmost worker efficiency; in the development of synthetic rubber and high octane gasoline where very low temperatures were required; in the production of essential chemicals and drugs, photographs and for the storage of food for the Armed Forces.

Since 1945, air conditioning has become an increasingly important element in all modern life and through intensive research by Carrier and York, its benefits have been spread to apply to modest homes, the tallest skyscrapers, giant hotels, deep mines, department stores, theaters and scores of other fields. Widespread public acceptance appears to assure almost unlimited growth for the industry, especially in private homes where the maintenance of stable temperatures in winter or summer has become an increasingly essential convenience.

Postwar Progress

Through research and the availability of experienced engineers, both Carrier and York have forged ahead in postwar to produce new refrigerating systems and equipment to meet the most exacting needs of industrial and commercial applications, many of which involve completely tailor-made construction. This necessitates production of a wide range of compressors and air diffusion methods to control temperatures from 100 degrees F. below upward. As patents are not relied upon very extensively in the field, successful progress under heavy competition has hinged importantly on proven reputation and engineering skill which both concerns amply possess.

Because of the great industrial effort towards modernization in postwar, it has been natural for air conditioning to make vast strides among business firms of almost every description, and the potential for further growth is truly impressive. Adding to the foregoing stimulus has been the development of frozen foods which created a rising demand for improved equipment, large storage refrigerators, attractive show cases and cabinets by processors and distributors alike. The same is true of home freezers, now increasingly popular, although as yet neither York nor Carrier have exploited the markets for them as vigorously as they will likely do hereafter.

Room air conditioners, on the other hand, have rapidly gained in public favor and due to the strong uptrend in home construction of late, sales of these efficient temperature stabilizers have mounted substantially. Equipment of numerous housing projects with room conditioners has been found an effective method of stimulating sales by the builders, and many private owners have proceeded to install them in apartments and houses.

Relatively high cost still restricts the market for this type of equipment but this handicap may be overcome progressively as greater mass production and simplified construction evolve. Present capacity, though, cannot meet the demand that already exists. Another encouraging potential is the development of air ventilating and dehumidifying apparatus for an entire house, with button controls for each room much along modern lines now followed for multi-apartment buildings and big office structures.

Our brief review of market conditions in the air conditioning industry should provide some background for studying the individual progress made by Carrier and York in their recent mushroom growth. The fiscal year of York Corporation ends on September 30, that of Carrier on October 31, hence in the absence of interim statements their available balance sheets are not quite up-to-date. On an appended table, we present a number of statistics relating to the 1949 balance sheets for purposes of comparison. Also shown are data covering capitalization, operating and income statistics.

Comparative Statistical Summary

	Carrier Corp.	York Corp.
CAPITALIZATION:		
Long Term Debt (000 omitted)	$ 9,200	$ 6,178
Preferred Stock, Stated Value (000 omitted)	$ 5,563	$ 8,000
Common Stock (number of shares)	590,578	930,636
INCOME ACCOUNT: For Year Ended	10/31/49	9/30/49
Net Sales (000 omitted)	$ 46,209	$ 50,008
Net Sales Per Share	$ 78.24	$ 53.73
Operating Income (000 omitted)	$ 2,970	$ 2,677
Operating Margin	6.4%	5.3%
Net Income (000 omitted)	$ 1,834	$ 1,617
Net Profit Margin	3.9%	3.2%
Net Per Share	$ 2.72	$ 1.35
INTERIM REPORTS: For Period of	12 mos. ended 7/31/50	9 mos ended 6/30/50
Net Sales (000 omitted)	$ 54,161	$ 37,368
Operating Margin	.....	8.5%[3]
Net Income (000 omitted)	$ 2,483	$ 1,860
Net Profit Margin	4.5%	4.9%
Net Per Share	$ 3.83	$ 1.71
EARNINGS & DIVIDEND RECORD: (per share)		
10 Year Average Earnings 1940-49	$ 1.94	$ 1.35
1949 Dividends	$ 1.00	$ .75
1950 Dividends	$ .75[1]	$ .50[2]
BALANCE SHEET ITEMS (000 omitted): As of	10/31/49*	9/30/49*
Cash & Gov. Securities	$ 6,146	$ 4,355
Cash & Gov. Sec. as % of Current Assets	27.5%	17.1%
Inventories	$ 10,655	$ 14,060
Inventories as % of Current Assets	44.7%	55.5%
Total Current Assets	$ 22,286	$ 25,331
Total Current Liabilities	$ 4,940	$ 5,983
Net Working Capital	$ 17,346	$ 19,348
Current Ratio	4.5	4.2
Fixed Assets (Net)	$ 10.7	$ 11.2
Total Assets	$ 36,128	$ 39,075
Book Value Per Share	$ 29.66	$ 20.25
Net Current Assets Per Share	$ 7.25[4]	$ 5.55[4]
Recent Price of Common	17⅞	11¼
Yield on indicated 1950 dividend	5.6%	4.4%
Estimated 1950 Net Per Share	$ 3.90	$ 2.30
Price-Earnings Ratio (to Estimated 1950 Net)	4.5	4.9

*—Latest available.
1—To Sept. 1, 1950.
2—To July 1, 1950.
3—Pre-Tax Margin.
4—After deducting Debt and Preferred Stock.

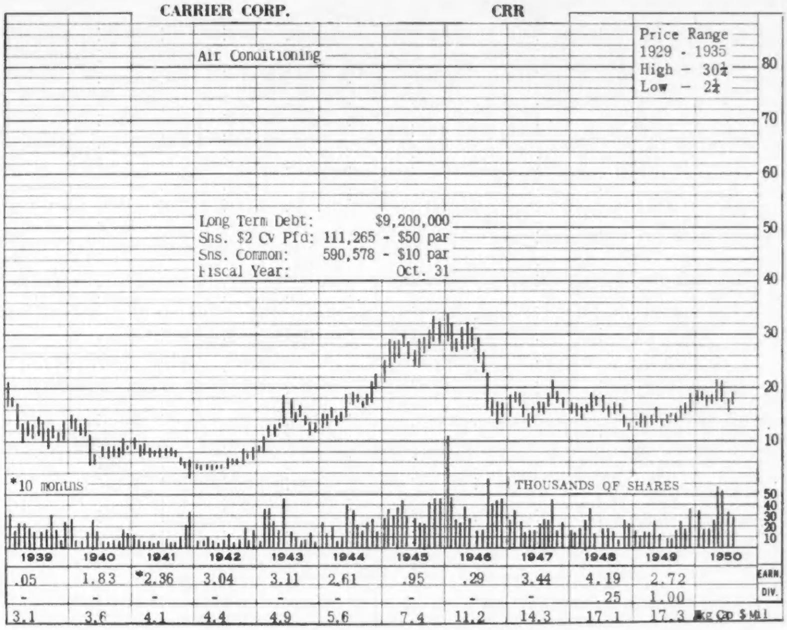
York Corporation has a slightly larger physical structure than its competitor, with net property account at the end of fiscal 1949 reported as $11.2 million. Gross expenditures for expansion and modernization in the 1946-49 period apparently totalled about $4.7 million, apportioned rather evenly over each year. These facilities permit production of a full range of refrigerators and air conditioning equipment, with the exception of household refrigerators. The company operates two plants in the City of York, Pennsylvania, with adequate space for further expansion. Also owned in fee is the property used for branch offices in numerous cities and to service customers throughout the country. Production and sales of parts, together with service charges, forms an important element in York's over-all activities, both at home and in some foreign markets.

Debt Financing

In order to finance plant improvements and to carry inventories commensurate with rising volume in postwar, York Corporation created two series of funded debts of which as of September 30, 1949, a total of $6,178,000 was outstanding, carrying relatively low interest rates of 3¼% and 3¾%, respectively. This new capital has enabled the company to be free of short term bank debt at the end of every year since 1946. Allowance, however, must be made for annual sinking funds that in 1949 amounted to an accrual of more than $600,000. While the dividend restrictions on these term debts are not very onerous,

on one issue an extra sinking fund is required equal to 20% of net earnings in excess of $500,000 annually, a rather unusual feature.

To swell working capital additionally, York Corporation also sold 160,000 shares of 4½% preferred stock, with $50 par value, in 1947, raising approximately $8 million. This senior issue is convertible into common stock on a basis of one share of preferred for 2.77 shares of common until 1952 and 2.22 shares through February, 1957. Dividends on the common shares are restricted to surplus accumulations since 1946 plus $600,000. We cite these restrictions because in combination, they might cause considerable dividend conservatism in lean years.



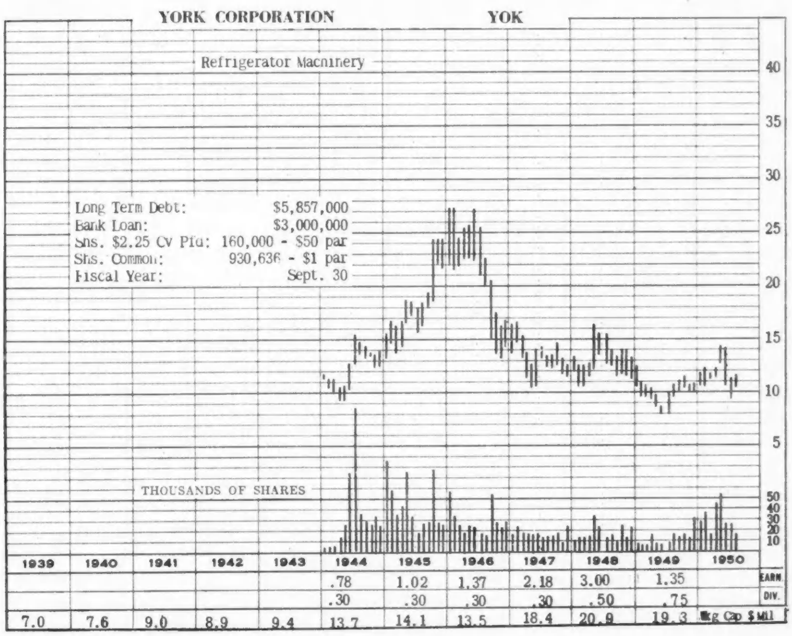
Gain in Working Capital

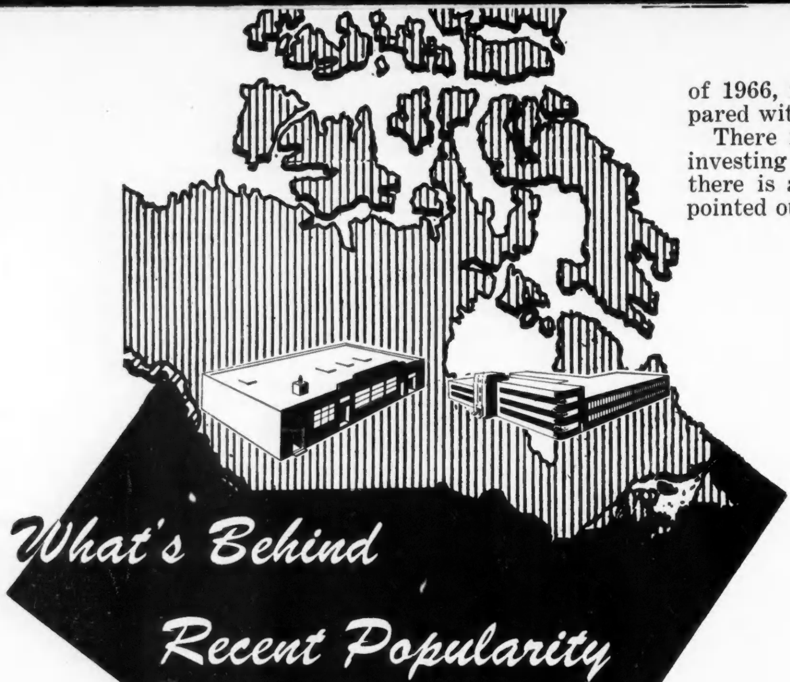
Since 1943, York has increased its working capital from $9.4 million to $19.3 million by 1949. A current ratio of 4.2 indicates an above-average liquidity. Inventories at the end of fiscal 1949, amounting to $14 million, were $3.4 million below the previous year in reflection of lower sales caused by last year's widespread recessionary influences. In relation to sales volume of $50 million, inventories represented about ninety days' business, a healthy position considering the rather intricate character of the company's products. From our table it will be noted that of total current assets, inventories represented 55.5%.

Back in 1943, Carrier Corporation had rather meager facilities carried on the books with a net value of about $1.3 million, but by the end of fiscal 1949, net property account had risen to $10.7 million. In the last five years, the company spent more than $9.9 million for new equipment, and in 1947 acquired a plant that cost around $10 million in 1942, for a bargain at $4 million. By the end of the current year, Carrier will have expended an additional $3.2 million for enlarging its facilities. The company's production facilities are now completely modern in every respect. Operations are centered in Syracuse, N. Y.

In order to facilitate its rapid growth, Carrier, like its competitor, resorted to the capital markets. In 1946 the company's stockholders subscribed to all but 5,370 shares of new $50 par convertible 4% preferred of a total offering of 118,257 shares. Proceeds of about $5.7 million were used to retire a former issue of 4½% preferred and to boost working capital. Subsequently, the Metropolitan Life Insurance Company loaned the company $7.5 million on term notes at 3⅝%, and late in 1949 an additional $1.7 million at 3¾%. The dividend restrictions relating to the preferred stock are normal, but those on the term loans, if any, are not stated. Carrier was fortunate in adding to its cash resources by the sale of its old plant for $1.5 million last year, and its ability to release the facility pending construction of its new quarters.

As of October 31, 1949, the balance sheet of Carrier revealed cash and government securities totaling $6.1 million, and these represented 27.5% of total current assets compared with 17.5% in the case of York. Net working capital of Carrier, though ample, was slightly less at $17.3 million than that of its competitor. Inventories of $10.6 million relative to 1949 sales volume (*Please turn to page 44*)





What's Behind Recent Popularity of Canadian Securities?

By

V. L. HOROTH

The flow of American funds to Canada has been gathering momentum ever since the outbreak of the Korean fighting. At first the influx, in part, reflected the growing confidence in the Dominion's economic potentialities and its economic soundness, and partly it represented a flight of capital from the United States.

But in more recent weeks the carefully fanned rumors about an impending up-valuation of the Canadian dollar have sent to Canada a huge volume of speculative "hot" money, eager to win a handsome capital gain of about 9 per cent in case the Canadian dollar is brought up to parity with the U. S. dollar. According to one reporter, "security houses specializing in Canadian bonds and stocks have been deluged with buying orders", and with the wires to Montreal and Toronto kept hot, "their bookkeeping forces have been working overtime."

It is known that the Canadian authorities are watching the inflow of American speculative funds with deep concern. It has been estimated that within the space of $2\frac{1}{2}$ months, Canada has received some $500 million of American funds. The official Canadian gold and dollar reserves, which were around $1,250 million as of the end of June, are estimated to have reached almost $1,600 million, a record level, and the end of the influx of the funds is by no means in sight.

As a result of the huge inflow of American funds, practically all Canadian securities—even those which do not pay any dividends—have been pushed up. Canadian internal bonds (payable in Canadian dollars) have also gone up, the Canadian War Loan 3s of 1966, for example, selling at around 94 as compared with about 92 some two months ago.

There is, of course, nothing wrong, in itself, in investing in Canadian securities. On the contrary, there is a great deal to be said for it, as will be pointed out later, not only from the viewpoint of the future potential earning power of Canadian corporations, but also from the viewpoint of the soundness of the Dominion's fiscal policies. These advantages have not been overlooked by the American investor. Once the uncertainty about exchange rates was removed by the adjustments in September 1949, American capital began to flow into Canada, thereby reversing the period of the American capital outflow between summer 1946 and September 1949.

But since the principal reason for the current heavy stream of American capital flowing to Canada seems to be the prospective upvaluation of the Canadian dollar "in the near future", let us examine what chances there are of the Canadian authorities taking this step for the second time in less than five years.

The people who regard up-valuation as "only a matter of time" usually argue that the Dominion will take the step (1) to counteract the inflationary effect of the influx of American capital; (2) to lower the cost of imports from the United States of such industrial raw materials as cotton, coal, and steel—on which the Canadian industry is dependent—in *order to keep down the cost of living,* and (3) to restore the prestige of the Canadian dollar, which is unquestionably undervalued at 91 cents, and which would have probably never been devalued had not the pound sterling been pushed down to $2.80 in September 1949.

The anxiety of the Canadian authorities to keep down the cost of living is undeniable, particularly at the present time when many Canadian industries seem to be faced by labor troubles. The desire to offset the inflationary effect upon her economy of the rising prices in the United States was also the main reason for the up-valuation of the Canadian dollar to parity with the U. S. dollar in the summer of 1946. It will be remembered that the Canadian step followed the removal of most of the price controls in this country in the early summer months of that year.

Greatly Improved Canadian Trade Balance

Those who anticipate another revaluation add that the Dominion's international balance of payments with the United States could weather such a step. There is no doubt about it. The Canadian trade deficit with this country, which in 1947 was $940 million, and some $450 million in 1949, is currently running at the rate of only about $100 million a year. This amount is likely to be more than amply covered by expanding expenditures of American tourists and by the dollars (and other convertible exchange) received from Western Europe.

These dollars are being supplied to Western European countries by the ECA; only a few months ago the Canadian were worrying how they would pay for their imports from the United States once the

ERP was liquidated. But the war in Korea, and the prospects that Western European purchases in Canada will be financed indefinitely with U. S. dollars supplied under the Mutual Defense Program have now more or less dispelled these fears.

In the armory of arguments against early up-valuation, number one is that before doing anything, the Canadian authorities will certainly want to know what will be the effects of the recent relaxation of import restrictions on Canada's balance of payments with the United States. The argument is that the Canadians may prefer a freely convertible currency to a revalued currency. And there is certainly a lot to be done before the Canadian dollar can become freely convertible: the restrictions on the spending of Canadian tourists in the United States would have to be removed, the remaining controls on imports lifted and, above all, the Canadian national would have to have restored the freedom of transfer of his capital.

Farmers, Exporters Less Enthusiastic

Secondly, many Canadian businessmen may look askance at another revaluation now. Wheat farmers who have a large crop to sell this year in a shrinking export market are not likely to welcome it. And the exporter of manufactured products, who has been encountering, like his U. S. counterpart, a growing competition of European and Japanese goods, would have to expect to find the going even more difficult as a result.

In this connection it may be pointed out that, unlike New York, Canada is rather cool to the prospects of up-valuation. Canadian bank authorities and financial periodicals have been rather skeptical about it.

It is generally recognized that frequent changes in currency valuations are neither confidence-inspiring nor good for business. There is reason to believe that the Canadian authorities will not rush the matter without considering all the pros and cons, particularly since the 1946 up-valuation is now regarded, in view of its aftermath, as ill-advised. As will be remembered, it contributed to a rapid exhaustion of the wartime accumulated gold and dollar reserves, which in turn brought about the imposition of strict import controls, some of which are still in force.

In assessing the arguments for and against revaluation of the Canadian dollar, one cannot help feeling that the major consideration likely to influence official action is the matter *of keeping down the cost of living.* Hence the movement of prices of such industrial raw materials as steel, coal, and cotton, which are imported from the United States in large quantities, may prove to be *the clue* to Canada's action. If we in the United States can prevent a serious rise in the prices of these products—as Washington seems to be determined to do—Canada may stick to the present exchange rate. The Canadians may also be waiting for what may happen to commodity prices if the Korean affair is wound up before long.

Furthermore, a lot will also depend upon the magnitude of the influx of U. S. capital. If the movement persists, and if the Canadian gold and dollar reserves continue to grow, let's say above the $2 billion level, the Canadian authorities may take some action; however, the up-valuation may be less than the anticipated 9 per cent. On the basis of the present influx (about $100 million a month), no action may be taken before the end of the year.

People investing in Canadian securities have the right to bring back their funds if they desire to do so. But there remains to be pointed out the fact that —unless the present Canadian exchange regulations are changed—individuals desiring to obtain U. S. dollars after a possible Canadian up-valuation will have to rely on the New York market for the so-called free Canadian dollars. This market is normally very narrow, and hence if everybody tries to liquidate his Canadian holdings at once, it may well happen that no one will buy back Canadian dollars except at a considerable discount, in which case the up-valuation profits which look a sure bet now, will vanish into thin air.

Though the speculator who has sent his money to Canada during the last few weeks in the hope of a quick "killing", may yet be disappointed, the bona fide investor may be well satisfied in the long run. In the first place, returns are somewhat higher in Canada than on comparable American securities. Second, the general economic situation in Canada promises a greater appreciation of stock values. This because the Dominion is not only in a sounder economic and financial position that its great neighbour to the South, but also because Canada is currently going through a second postwar expansion spurt.

The Dominion's fiscal affairs are in better shape than ours primarily because the burden of the cold war has been less heavy for Canada than for this country. As a neighbour of the strongest world power, Canada can afford to spend less on armaments. Before Korea, her defense expenditures, budgeted at $425 million during the current fiscal year, were on the per (*Please turn to page* 46)

Twenty-Three Years of U. S. Investments in Canada

(In millions of Canadian dollars)

End of Year	1926	1939	1945	1948
MANUFACTURING				
Vegetable products	$ 69	$ 96	$ 140	$ 179
Animal products	18	47	44	49
Textiles	18	20	28	35
Wood and paper products	256	281	316	451
Iron and steel products	180	188	272	346
Non-ferrous metals	83	130	203	250
Non-metallic minerals	109	112	133	229
Chemicals and products	60	88	118	167
Misc. manufactures	25	22	31	47
Total manufactures	818	984	1,285	1,753
MINING AND SMELTING	141	198	255	274
UTILITIES	249	399	359	347
MERCHANDISING	89	119	153	183
FINANCIAL	58	126	198	208
MISCELLANEOUS	48	55	54	64
Total investments	$1,403	$1,881	$2,304	$2,829

Source: Dominion Bureau of Statistics.

FOR PROFIT AND INCOME

Shift

Hopes of relatively early victory in Korea are reflected in a tentative shift in market selectivity. There has been somewhat better recent demand for groups which had been more or less out of favor as assumed war-economy casualties: such as building stocks, autos, auto accessories, chemicals and finance-company stocks. With the exception of rails, the "war-baby" groups have mostly been slowed or halted by cautious profit-taking. Nobody can know when the war will actually end. If soon, there might be some let-down in "inflation sentiment", in the recent highly abnormal demand for durable goods and in industrial production, for the increase in arms spending can not be a big direct factor for some months to come. In short, there is still too much risk in an all-out policy as between stocks or cash; and as between "peace stocks" and "war stocks". The uncertainties more than ever call for adequate diversification of holdings, and for maintenance of a fair amount of reserve buying power.

October

The market has no apparent "seasonal tendency" one way or the other in the month of October. A glance at the chart of the Dow-Jones industrial average for 30 years back to, and including, 1920 indicates a material advance for this month as a whole in 10 years, a material decline in 8, and insignificant net change in 12 years. October saw some net rise in each of the last three years: 1949, 1948 and 1947. It has not brought a decline of more than insignificant scope since 1941. It has been a poor-to-bad month in such bear-market years as 1929, 1930, 1932 and 1937. It brought a good bear-market rally in 1931. There has not yet been an October rise as violent as the biggest October declines: such as about 70 points in the Dow average in this month in 1929, 22 points in 1930, and 16 points in 1937. The smash in this month of 1929 amounted to more than 20%. As with any month, the "tendency" is up in bull markets, down in bear markets. But you never know for sure whether any given month was in a bull or bear market until sometime thereafter. By the usual definition, and the technical signs, we have a bull market of sorts up to this writing.

Acting Well

A partial list of stocks meeting with recent above-average demand would include Allied Stores, J. I. Case, Celanese, Continental Oil, Kimberly-Clark, New York Central, Rayonier, Pacific Mills, Sears Roebuck, Montgomery Ward, General Shoe, Freeport Sulphur, Mesta Machine, and May Department Stores.

Utilities

Improving prospects for a more or less satisfactory termination of the Korean war without too much delay set off a chain of hopes—maybe wishful thinking—like this: Perhaps the armament program will be less speedy, and also less huge in ultimate scope, than was

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Erie Railroad	8 months August 31	$2.46	$ .21
Caterpillar Tractor	8 months August 31	5.66	2.86
Consolidated Textile	Year August 31	3.02	.68
May Department Stores	6 months July 31	2.21	1.55
Montgomery Ward & Co.	6 months July 31	4.14	2.12
Allied Stores	July 31 Quarter	.87	.34
Dresser Industries, Inc.	July 31 Quarter	1.21	.35
Stevens, J. P. & Co., Inc.	July 29 Quarter	1.37	.31
Associated Dry Goods Corp.	6 months July 29	.51	.35
Sears, Roebuck & Co.	24 weeks July 16	2.30	1.40

thought while the Korean fighting was in progress. This could make Congress more "reasonable" on the matter of higher corporate taxes. If so, utilities might fare better than the market has heretofore allowed for. Well, this has plenty of guess-work in it; and when it comes to that, your guess is probably as good as any this column can make. Encouraged by peace hopes, the recent market action of utilities as a whole has been the best in some weeks; but they remain well under the previous high, even for 1950. Yields of representative utilities now average about 6%. It is materially less for top-quality issues, considerably more for speculative or semi-speculative issues. Until the actual tax terms are known, dividend prospects will be subject to question, especially where present coverage is fairly narrow.

Income

It seems reasonably probable that the present dividends of some outstanding utilities would continue to be adequately covered, allowing for continuing growth of gross revenue at the recent rate over at least the next several years, even under a 50% regular Federal tax rate or an EPT fully as stiff as that sponsored by Senator O'Mahoney. One that appeals to this column in that respect, and for good current yield, is American Gas & Electric, a strongly situated electric utility, despite the "Gas" in the name. Consolidated earnings this year probably will be 8% to 10% above last year's $4.31 a share. The tax accounting is far too intricate for an outsider. However, it may be noted that earnings through World War II averaged only a shade under those of the prewar year 1939, while dividends averaged a shade higher. The earnings base is far higher now than it was then; and the present dividend coverage is fairly broad as utilities go. The stock is a fraction under 50 at this writing, yielding slightly more than 6%. As it sold above 55 earlier this year, there is some potentiality for appreciation over a longer-term period.

Beneficiaries

The tax law soon to take effect carries a provision for 5-year amortization of new equipment certified as "emergency". This will considerably stimulate demand in some machinery and equipment lines. Since an important addition to the steel industry's capacity is assured by ability to write off most of the cost out of taxes, makers of steel-mill equipment should benefit largely. The two most prominent of these are United Engineering & Foundry and Mesta Machine. Despite the cyclical nature of the business, both are fine companies. Mesta has paid some dividend every year since 1914; United every year since 1902—which is more than most of their steel industry customers can say. Even in the bleak depression year 1932, Mesta earned a few cents a share and paid 90 cents in dividends; while United had a small deficit and paid 87½ cents in dividends. Present indicated dividends are $3.50 for Mesta and $3.75 for United. The latter earned a record $6.83 a share in 1949; the former a record $5.30 a share. Despite higher taxes, both figures should be approximated, or modestly bettered, this year. In both cases finances are strong and there is nothing (or virtually so) ahead of the common shares. United is now around 47½, a new peak since 1946 when it sold at 56. The long-term high was 63 in 1937. Mesta is around 48½. The 1946 high was 61½; the 1937 high 72¼. On an average earnings basis, the EPT position of each would be reasonably satisfactory.

Yields

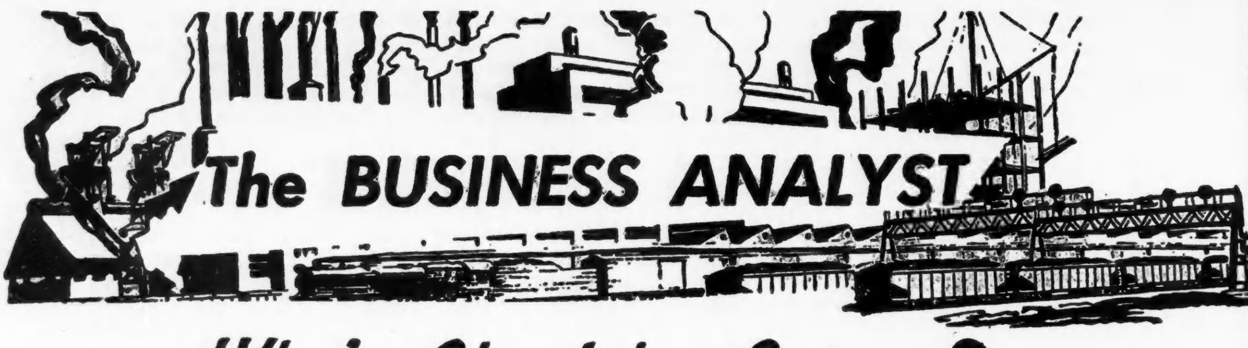
The only way you can offset or partly offset higher personal income taxes is to increase your gross income. For the investor this involves shopping around and doing some switching to boost dividend yields. That is hardly worthwhile in the highest brackets; and it cannot be advised in any bracket if a switch increases the risk factor importantly. However, our experience has been that in more portfolios than not, the average yield can be increased materially, without too great increase—if any—in the over-all risk, through judicious switching. In the case of most of you who are reading this, the tax backet probably is such that a 6% gross yield, under the new tax rates, will provide a materially larger net yield than will a 5% gross yield under the previous tax rates. And there are plenty of good-quality stocks now yielding 6% gross or more.

Thompson

A stock this column is partial to is Thompson Products, generally classed as an "auto parts" stock. This is more than a little misleading. The biggest portion of the business is in aircraft engine and related parts. Moreover, replacement auto parts rank not far behind original-equipment parts in volume, and may top them in profitability. This balance implies continuing high volume in a defense-affected economy, whether auto production shrinks a little or a great deal. Due to high average earnings in the postwar period, the EPT position is uncommonly favorable for an industrial company. The stock, around 71 at this writing, is scheduled for a 2-for-1 split. Earnings on the present stock were a record $10.73 a share last year, and are expected to better that this year, regardless of higher taxes. The dividend, now $3 annually, probably will be more than $1.50 on the split shares.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

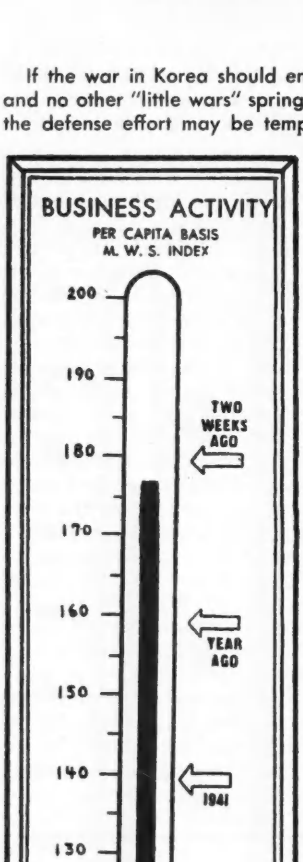
		1950	1949
El Paso Natural Gas	12 months July 31	$1.84	$2.30
Kansas City Southern Ry.	7 months July 31	6.01	7.34
Bond Stores	6 months June 30	.36	.78
Goebel Brewing Co.	June 30 Quarter	.36	.45
McKesson & Robbins, Inc.	Year June 30	4.55	4.90
Chicago Pneumatic Tool	6 months June 30	3.76	4.10
Amer. Ship Building Co.	Year June 30	2.26	4.47
Lane Bryant, Inc.	6 months July 31	.96	1.18
Solar Aircraft Co.	July 31 Quarter	.21	.76
Goodall-Sanford, Inc.	Year June 30	.50	1.88



What's Ahead for Business?

By E. K. A.

If the war in Korea should end soon as a major operation and no other "little wars" spring up elsewhere, the urgency of the defense effort may be tempered somewhat but it would be a mistake to assume that it will be pared in any way. Back of this is the official thought that the only way to peace is through armed might, hence building up our military strength will continue as planned with the aim of a permanent military establishment of some 3.2 million men.



The cost will certainly go above the $30 billion annually now scheduled; with European military aid superimposed, it may reach $40 billion easily even in 1951, considering the way costs have been rising. This means that high taxes and controls are inevitable even if hostilities in Korea are successfully concluded, if no others follow, even if Stalin launched an all-out peace offensive as many think he will.

Since the need for an expensive military establishment may persist for a long time, the long range hope is for an economy big enough for the dual job of maintaining large service forces and still able to supply most civilian needs without undue restraints. Industrial expansion thus becomes a key factor. We have already shown how Korea has boosted plans for capital spending, and the uptrend is likely to continue, with industrial construction steadily on the upgrade.

The trend finds reflection in machine tool orders; after all, new plants must be equipped with production machinery. Thus August orders for new machine tools showed another sharp monthly gain over July, rising to a level six times higher than a year ago. Foreign orders also increased. The ratio of total unfilled orders to shipments at the end of August stood at 8.9 to 1.

The recent hesitancy in commodity markets must be viewed in the light of what all this implies, and also with due consideration of the fact that we are still primarily in a civilian economy. Arms orders flowing to industry have been relatively insignificant to-date though they will rise sharply in the first half of 1951. The slowdown in demand and the tendency of some prices to give ground has been under way for some time—prior to the latest Korean developments, and reflects abatement of scare buying plus the slowness with which the defense program is getting under way.

As to the latter, industry remains stymied in its attempt to find out just what role it will be called upon to play since military needs are not yet fully calculated. This is bound to change as soon as the arms program assumes definite shape and outline, and is unlikely to be affected by possible "peace around the corner." Peace in Korea will likely be only half-peace, an uneasy peace, and rearming will go on. So will industrial expansion to fit the economy for its dual role.

This is not a prospect that portends anything more than a mild temporary contraction of business during a brief interim period early next year when the seasonal pull is downward and arms orders are only beginning to roll. Even at that, there may be no contraction to speak of at all; the present momentum and high purchasing power should keep things up. If so, the present leveling in commodity prices may not last long. After all, the armed services with upwards of $30 billion to spend will be in the market for goods, competing with civilians with close to $200 billion to spend. Obviously there won't be enough of everything for everybody, which usually means pressure on prices.

Inventory Controls

There is some doubt whether inventory controls, just recently imposed, will really work. The supply situation will remain tight in the areas affected, and rigid priorities probably cannot be avoided for long, with a priority scramble in the offing. It will come just as soon as arms orders with priority tags begin rolling in volume, affecting the supply for civilian output. Makers of "essential" civilian goods will be quick to put in preferred claims. In the meantime, with few companies having larger inventories than needed, nobody will be hurt much by the new controls. There will be little or no use for the power of requisition. Business is trying to find out just what "normal operating inventories" which it mustn't exceed, means in the opinion of NPA. Without a definition, the inventory regulation is merely a gesture, though it lends itself to a crackdown any time. Meanwhile, expect some voluntary price controls next month.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—During the fortnight ended September 22, all three of our major common stock indexes advanced to new highs since 1946. Among the 46 group indexes, 22 also made new highs for various periods, as tabulated on the second page following, including a new high since 1929 for chemicals, and new all-time highs for the paper, petroleum and sulphur groups. New York bank stocks were firm; but have not yet fully recovered their losses suffered during the three weeks of war scare selling in late June and early July. Corporate preferred stocks eased off to the lowest average level in 4 weeks. The rise in corporate bonds appears to be losing momentum. Foreign government dollar bonds extended their recovery, but are still below the July 1 level. Both classes of the Victory 2½s sagged to the lowest prices since June 25, 1947. For the fortnight ended September 13, weekly reporting member banks showed further expansion of $254 million in demand deposits, $591 million in commercial loans, $32 million in holdings of securities other than U. S. Governments and $259 million in earning assets; but holdings of U. S. Government securities declined an additional $255 million. Since June 30, loans and investments in other than U. S. Governments have shown an inflationary expansion of $2.7 billion, despite a drop of $1.8 billion in holdings of U. S. securities, while demand deposits have risen $1.3 billion. Seeking to curb this alarming rate of expansion in bank credit, the Federal Reserve banks during the week ended September 20 sold $496 million from their portfolio of U. S. Government securities. Largely in consequence of this anti-inflation move, member bank reserve balances dropped $566 million, with weekly reporting member banks in New York showing the largest deficiency in reserves ($260 million) in many years. In the interest of clear thinking, it should be emphasized that Government deficit spending has not been responsible for this inflationary outburst of credit expansion since June 30. For the fiscal year to September 20, the budget deficit has been only $46 million, against $2,041 million in the corresponding interval last year. Meanwhile, the Federal gross debt has actually been reduced by $964 million! Cash-ins of series E savings bonds during August were the heaviest in nearly four years, and exceeded sales by $124 million. The President has just signed a measure approved by Congress increasing from $5,000 to $10,000 the insurance coverage of deposits in banks which are members of the Federal Insurance Corp. The assessment rate payable each year to the F.D.I.C. by the banks is left unaltered at 1/12 of 1%, but the new law sets up a dividend credit plan which will in effect reduce average assessments about 55%. Rumors have it that several nations—including Australia, Canada and even Britain—are toying with the idea of revaluing their currencies as an aid to curbing the inflation expected to follow their rearmament expenditures. Our own rush to import strategic materials at fantastic prices is improving their dollar position so fast that they might be tempted to take the chance. The rumors help partly to explain why we have been losing gold. Canny speculators are hastening to place investments abroad before revaluations are announced. You can invest $910 in Canada now, for example, and then bring back $1,000 when and if Canada restores her dollar to parity with the U. S. dollar. But Canada fears that revaluation might reverse this welcome influx of gold and dollars.

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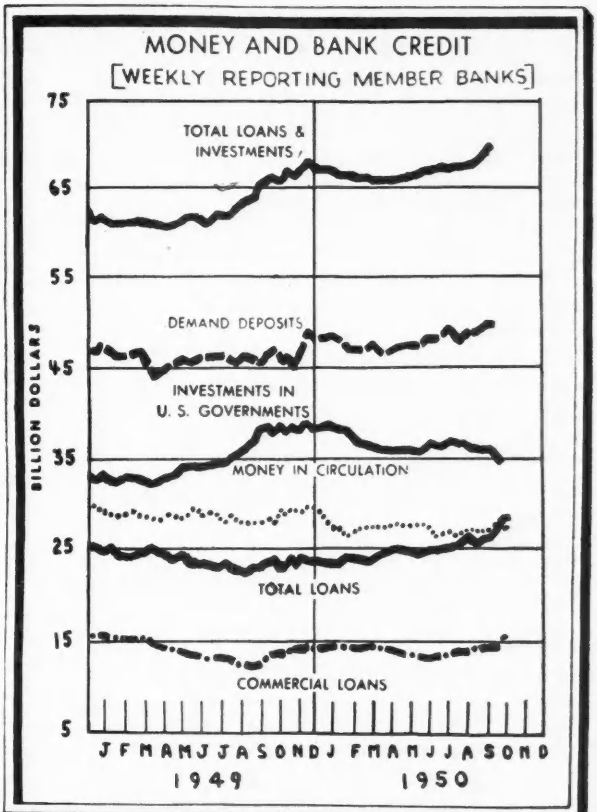

TRADE—A last minute rush to buy furniture and household appliances before stiffer consumer credit controls went into effect was mainly responsible for a spurt in department store sales during the week ended September 16 to a level 17% above last year, compared with a cumulative gain of only 5% for the year to date. Sales during the month of August by all retail outlets throughout the nation were 17% ahead of the corresponding month last year. Sales of durable goods were up 27% in the scramble to acquire automobiles and housefurnishings.

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INDUSTRY—A slight easing in business activity during the fortnight ended September 16 was accompanied by scattered reports of some slackening in the flurry of inventory buying.

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COMMODITIES—Commodity indexes, after advancing to new all-time highs, turned reactionary during the fortnight ended September 22, with futures closing off on the fortnight under leadership of weakness in grains.

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The nation's physical volume of BUSINESS ACTIVITY eased off a bit during the fortnight ended September 16, with the margin of increase over a year ago narrowing to 13.2%.

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Aug.	1.26	1.18	1.29	1.55
Cumulative from mid-1940	Aug.	400.1	398.8	385.9	13.8
FEDERAL GROSS DEBT—$b	Sept. 20	256.8	258.1	256.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 13	49.3	48.6	46.9	26.1
Currency in Circulation	Sept. 20	27.1	27.2	27.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 13	9.93	9.83	8.42	4.26
93 Other Centers—$b	Sept. 13	13.98	14.10	11.71	7.60
PERSONAL INCOMES—$b (cd2)	July	222	220	205	102
Salaries and Wages	July	147	147	136	66
Proprietors' Incomes	July	45	42	40	23
Interest and Dividends	July	18	18	17	10
Transfer Payments	July	12	93	12	3
(INCOME FROM AGRICULTURE)	July	20	19	19	10
POPULATION—m (e) (cb)	Aug.	152.0	151.7	149.4	133.8
Non-Institutional, Age 14 & Over	Aug.	110.9	110.8	109.8	101.8
Labor Force	Aug.	66.2	65.7	65.1	57.5
Military	Aug.	1.34	1.31	1.47	1.89
Civilian	Aug.	64.9	64.4	63.6	55.6
Unemployed	Aug.	2.5	3.2	3.7	3.8
Employed	Aug.	62.4	61.2	59.9	51.8
In Agriculture	Aug.	8.2	8.4	8.5	8.0
Non-Farm	Aug.	54.2	52.8	51.4	43.8
At Work	Aug.	50.0	45.9	47.1	43.2
Weekly Hours	Aug.	42.3	37.7	41.8	42.0
Man-Hours Weekly—b	Aug.	2.11	1.73	1.97	1.82
EMPLOYEES, Non-Farm—m (lb)	Aug.	44.9	44.1	43.0	37.5
Government	Aug.	5.8	5.7	5.8	4.8
Factory	Aug.	12.7	12.1	11.6	11.7
Weekly Hours	Aug.	41.2	40.5	39.1	40.4
Hourly Wage (cents)	Aug.	146.3	146.2	139.9	77.3
Weekly Wage ($)	Aug.	60.28	59.21	54.70	21.23
PRICES—Wholesale (lb2)	Sept. 19	169.7	169.1	154.0	92.5
Retail (cdlb)	June	187.5	185.7	188.3	116.2
COST OF LIVING (lb3)	July	172.5	170.2	168.5	100.2
Food	July	210.0	204.6	201.7	113.1
Clothing	July	184.7	185.0	188.5	113.8
Rent	July	124.4	123.9	120.7	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	12.47	12.21	10.63	4.72
Durable Goods	Aug.	4.78	4.67	3.63	1.07
Non-Durable Goods	Aug.	7.69	7.54	7.00	3.65
Dep't Store Sales (mrb)	Aug.	0.86	0.80	0.70	0.42
Retail Sales Credit, End Mo. (rb2)	July	10.86	10.39	8.13	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	July	24.3	22.1	15.5	14.6
Durable Goods	July	11.9	10.5	6.2	7.1
Non-Durable Goods	July	12.4	11.6	9.3	7.5
Shipments—$b (cd)—Total	July	20.0	20.8	15.8	8.3
Durable Goods	July	8.5	9.5	6.6	4.1
Non-Durable Goods	July	11.5	11.3	9.2	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	54.6	55.2	54.3	28.6
Manufacturers'	July	31.8	31.7	32.3	16.4
Wholesalers'	July	9.1	9.2	8.8	4.1
Retailers'	July	13.7	14.3	13.2	8.1
Dept. Store Stocks (mrb)	Aug. 20	2.0	2.1	1.9	1.4
BUSINESS ACTIVITY—1—pc	Sept. 16	177.4	177.4	159.0	141.8
(M. W. S.)—1—np	Sept. 16	207.9	208.0	183.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 35)

Scare buying of industrial and farm products is beginning to quiet down as buyers take another look at the SCARCITIES BUGABOO in the light of more favorable news from the Korean front and a growing belief that credit curbs, heavier taxes and other Government restraints may cause some easing off in general business activity this autumn.

* * *

Automobile sales usually, and construction activity always, fall off seasonally during the late autumn and early spring months; but experienced observers predict that the decline this time, particularly in the latter, will be more than ordinary. Among other straws in the wind, applications for F. H. A. mortgage insurance on new DWELLINGS have slumped, since lending curbs were ordered, from 9,600 weekly to 5,500.

* * *

Some think that the drop in home building will be sharp enough to hatch an oversupply of LUMBER before December. Moreover, no small part of the blame for current lumber shortages is chargeable to lack of freight cars. It is hoped that piles of lumber now marooned in West Coast mill yards for lack of transportation will be released to eastern retail yards before too long in consequence of recent action by the I. C. C. in ordering heavier loadings per freight car, an increase in demurrage charges and shortening of the "free time" allowed for unloading.

* * *

CRUDE OIL production has begun to taper off seasonally after rising during the week ended September 16 to a record 5.8 million barrels daily, more than a million barrels above a year ago. This would seem to prove that ample supplies of oil are available to meet the present emergency.

* * *

The impact of our REARMAMENT PROGRAM upon various industries will vary with their importance to national defense; but cut-backs in non-essential activities will be comparatively small unless the fighting spreads. Of course operating costs will go up in all lines under the impact of rising wages; but until ceilings are imposed, prices in most instances can be raised enough to compensate amply for climbing labor, material and freight costs.

* * *

PROFITS always rise in wartime, despite mounting taxes and other costs; but stockholders seldom benefit much from this, since a major portion of earnings must be retained for expanding production capacity.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	July	197	199	161	174
Mining	July	146	151	123	133
Durable Goods Mfr.	July	235	237	185	220
Non-Durable Goods Mfr.	July	181	184	154	151
CARLOADINGS—t—Total	Sept. 16	866	751	743	833
Manufactures & Miscellaneous	Sept. 16	406	342	352	379
Mdse. L. C. L.	Sept. 16	90	77	85	156
Grain	Sept. 16	50	43	48	43
ELEC. POWER Output (Kw.H.) m	Sept. 16	6,449	6,029	5,579	3,267
SOFT COAL, Prod. (st) m	Sept. 16	11.3	10.1	8.7	10.8
Cumulative from Jan. 1	Sept. 16	342	331	340	446
Stocks, End Mo.	July	52.0	51.4	69.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 16	5.9	5.9	4.9	4.1
Gasoline Stocks	Sept. 16	104	106	103	86
Fuel Oil Stocks	Sept. 16	42	43	68	94
Heating Oil Stocks	Sept. 16	74	72	80	55
LUMBER, Prod.—(bd. ft.) m	Sept. 16	895	755	710	632
Stocks, End Mo. (bd. ft.) b	July	6.2	6.1	7.4	12.6
STEEL INGOT PROD. (st) m	Aug.	8.19	8.07	6.72	6.96
Cumulative from Jan. 1	Aug.	63.4	55.5	58.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Sept. 21	239	220	189	94
Cumulative from Jan. 1	Sept. 21	8,720	8,469	5,972	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 16	208	192	198	165
Natural Rubber Consumption (lt)t	July	60.4	63.3	40.6	54.3
Do., Synthetic	July	43.6	48.6	30.1	0.5
Pneumatic Casings Production—m	July	8.3	8.5	6.3	4.0
Motor Vehicles, Factory Sales—t	Aug.	707	857	579	352
Portland Cement Production (bbls.)m	July	20.7	20.9	18.9	14.9

PRESENT POSITION AND OUTLOOK

Between pre-war 1939 and the World War II year 1943, for example, net earnings after taxes more than doubled, despite a 900% boost in taxes; yet cash dividend disbursements rose merely 18%.

* * *

Expenditures on new CONSTRUCTION during August reached a record $2.73 billion—26% ahead of August last year. New dwelling unit starts in August were slightly under the current year's peak touched in June. Last year, dwelling starts did not peak out until October. The F. W. Dodge Corp. reports that construction contracts awarded in the 37 states east of the Rockies set a new monthly record of $1,548 million in August—71% above August, 1949, compared with an eight-month jump of only 56%.

* * *

NEW ORDERS booked by manufacturers during July were 10% ahead of June and 57% above July, 1949. New orders for durable goods were 93% above a year earlier. The most spectacular increase was for transportation equipment, which rocketed nearly 700%. Orders for machinery and metals were more than twice as large as a year earlier. Even nondurables reported a year-to-year gain of 34%. Backlog of unfilled orders for nondurables were 77% larger than in July 1949; but durable goods backlogs were up only 35%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb.—Labor Bureau. lb2—Labor Bureau (1926-100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

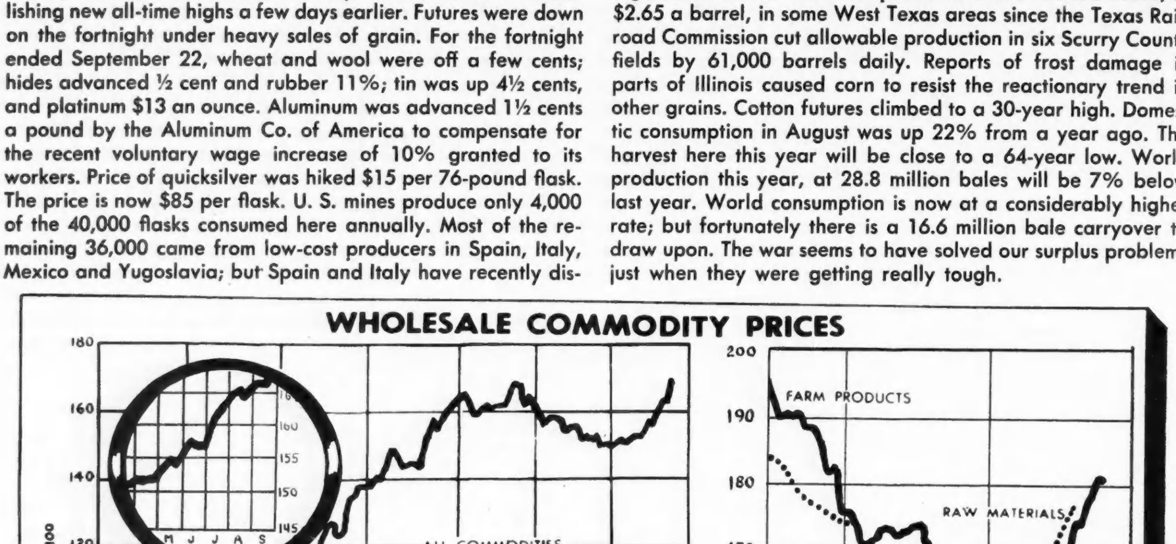
No. of Issues (1925 Close—100)	1950 Indexes High	Low	Sept. 15	Sept. 22
325 COMBINED AVERAGE	160.3	134.7	159.1	160.3D
4 Agricultural Implements	226.8	180.7	221.3	226.8B
10 Aircraft (1927 Cl.—100)	262.9	170.8	249.4	240.2
6 Air Lines (1934 Cl.—100)	538.3	450.3	511.3	495.5
7 Amusement	104.4	78.0	94.3	98.0
10 Automobile Accessories	241.7	195.6	231.0	231.3
12 Automobiles	37.6	28.5	36.8	37.6B
3 Baking (1926 Cl.—100)	23.3	19.0	20.3	20.4
3 Business Machines	276.5	226.5	260.7	261.0
2 Bus Lines (1926 Cl.—100)	176.6	145.9	156.7	154.8
5 Chemicals	306.3	256.4	303.6	306.3T
3 Coal Mining	14.3	11.3	14.1	13.6
4 Communication	63.4	41.9	59.8	63.4D
9 Construction	64.9	51.3	58.0	58.5
7 Containers	344.5	282.1	338.7	344.5B
9 Copper & Brass	112.3	80.3	112.3B	110.0
2 Dairy Products	78.3	68.1	77.6	78.1
5 Department Stores	73.3	56.6	70.3	73.3C
6 Drugs & Toilet Articles	209.8	170.2	192.8	191.7
2 Finance Companies	361.8	253.8	277.3	271.9
7 Food Brands	181.6	162.0	177.6	181.6C
2 Food Stores	108.0	86.3	98.2	97.3
3 Furnishings	80.8	61.1	66.0	64.0
4 Gold Mining	753.5	509.7	563.9	592.3

(Nov. 14, 1936,Cl—100)	High	Low	Sept. 15	Sept. 22
100 HIGH PRICED STOCKS	99.36	85.27	99.05	99.36D
100 LOW PRICED STOCKS	190.01	151.88	188.90	190.01D
5 Investment Trusts	79.9	66.5	75.8	75.2
3 Liquor (1927 Cl.—100)	1014.2	797.3	985.8	1014.2D
11 Machinery	165.5	140.6	163.6	164.6
3 Mail Order	124.7	99.6	120.2	124.7B
3 Meat Packing	101.0	85.9	101.0B	99.5
12 Metals, Miscellaneous	198.5	139.9	198.5D	195.1
4 Paper	303.3	213.4	289.5	303.3Z
30 Petroleum	317.3	243.0	313.6	317.3Z
27 Public Utilities	153.7	127.7	132.4	136.2
5 Radio & TV (1927 Cl.—100)	35.3	18.1	28.3	28.2
9 Railroad Equipment	55.7	43.0	55.7B	55.6
24 Railroads	30.8	22.3	30.2	30.8D
3 Realty	36.1	30.7	36.1D	35.9
3 Shipbuilding	166.2	139.7	154.1	155.2
3 Soft Drinks	391.6	295.9	306.8	302.7
15 Steel & Iron	134.9	96.1	134.9D	134.5
3 Sugar	61.9	48.7	61.2	60.1
2 Sulphur	396.2	301.6	396.2Z	383.7
5 Textiles	166.8	119.9	165.8	166.8B
3 Tires & Rubber	45.9	32.0	45.8	45.9D
6 Tobacco	88.2	77.3	81.1	82.0
2 Variety Stores	352.3	313.2	334.4	331.3
19 Unclassified (1949 Cl.—100)	111.7	93.2	109.9	111.7A

New HIGH since: A—1949; B—1948; C—1947; D—1946; T—1929. Z—New all-time HIGH.

Trend of Commodities

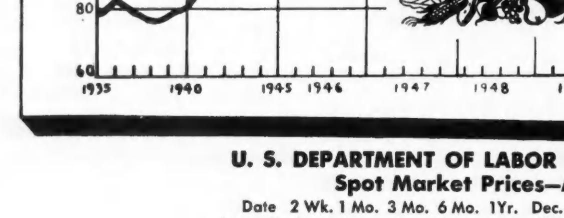
Both the Dow Jones commodity futures index and our own index of spot prices for 14 leading raw materials turned reactionary during the week ended September 22, after establishing new all-time highs a few days earlier. Futures were down on the fortnight under heavy sales of grain. For the fortnight ended September 22, wheat and wool were off a few cents; hides advanced ½ cent and rubber 11%; tin was up 4½ cents, and platinum $13 an ounce. Aluminum was advanced 1½ cents a pound by the Aluminum Co. of America to compensate for the recent voluntary wage increase of 10% granted to its workers. Price of quicksilver was hiked $15 per 76-pound flask. The price is now $85 per flask. U. S. mines produce only 4,000 of the 40,000 flasks consumed here annually. Most of the remaining 36,000 came from low-cost producers in Spain, Italy, Mexico and Yugoslavia; but Spain and Italy have recently discontinued shipments. High cost producers here say the price would have to go well above $100 a flask to warrant reopening of their mines. Crude oil prices have been raised 5½%, to $2.65 a barrel, in some West Texas areas since the Texas Railroad Commission cut allowable production in six Scurry County fields by 61,000 barrels daily. Reports of frost damage in parts of Illinois caused corn to resist the reactionary trend in other grains. Cotton futures climbed to a 30-year high. Domestic consumption in August was up 22% from a year ago. The harvest here this year will be close to a 64-year low. World production this year, at 28.8 million bales will be 7% below last year. World consumption is now at a considerably higher rate; but fortunately there is a 16.6 million bale carryover to draw upon. The war seems to have solved our surplus problems just when they were getting really tough.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Sept. 25	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1Yr. Ago	Dec. 6 1941
28 Basic Commodities	329.1	331.3	318.4	265.8	247.9	246.5	156.9
11 Imported Commodities	353.6	351.9	343.8	268.6	249.5	244.4	157.3
17 Domestic Commodities	314.2	318.6	303.0	263.9	246.4	247.8	156.6

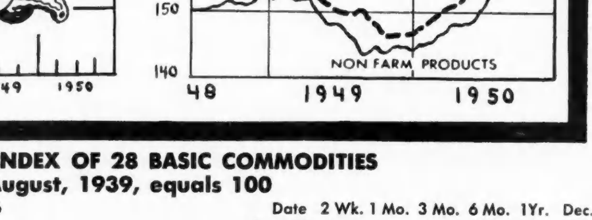
	Date Sept. 25	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	351.5	360.9	361.2	328.4	306.1	294.6	163.9
12 Foodstuffs	357.2	371.4	368.5	331.4	310.2	290.2	169.2
16 Raw Industrials	313.5	310.3	296.5	241.4	220.0	227.9	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	179.1	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	191.2	146.2	184.4	111.7	88.9	67.9	57.7	86.6
Low	140.8	128.6	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

An important order for new commercial aircraft has further swelled the mounting order backlog of military character already enjoyed by the active aircraft industry. **Pan American World Airways** has contracted to spend approximately $21 million for a fleet of 18 new four-engined Douglas DC-6B airliners, with delivery planned to start in the fall of 1951. These new clippers will have a speed of 325 miles per hour and are a further development of the conventional DC-6s which now have operated 13 billion passenger miles. Due to the increased speed and range of the new type, the DC-6Bs are expected to provide lower operating costs as well as the utmost in passenger satisfaction.

Last June, **American Cyanamid Company** announced plans to construct a $3 million plant in East Chicago, Indiana, for the production of cracking cata-
for additional productive capacity, however, have led
lysts used by the petroleum industry. Requirements
the company to purchase a larger site in Michigan City, Indiana, where the new facilities planned will be constructed. At the new plant, output primarily will be microspheroidal catalysts, of which American Cyanamid is now the only producer and which were developed through close co-operation with the research laboratories of the petroleum industry. The company already produces the material in a Texas plant, and its total output will be more than doubled upon completion of the Indiana plant, projected for about the middle of 1951.

An expansion program involving prospective outlays of more than $30 million in the next few years is envisaged by **Monsanto Chemical Company.** Emphasis will center mainly on additional facilities to produce acrylonitrile and related chemicals from acetylene by an entirely new process. These derivatives are an important element in the manufacture of plastics, synthetic rubber and certain fibres in wide demand. A start on the new expansion program is to be made very soon at the Texas City plant where styrene is presently produced. Upon completion, Monsanto's heavy investment in this facility, that has been rebuilt following the 1947 explosion, will be more than doubled.

The **National Association of Manufacturers** has made an interesting study of the increasing part played by research in the development of the economy in the last two decades. Whereas twenty years ago, American industry spent only $116 million annually on research, about $1 billion a year is now devoted to this constructive work. In the course of 70 years, industrial research is credited with having created 15 major industries, each of which has provided an average of one million jobs for the expanding labor force.

With little slackening of the pace, American railroads continue to place orders for new equipment, with the possibility that order backlogs may again reach 100,000 new freight cars and include a goodly number of diesel engines. Latest among these contracts are those of **Southern Pacific Railroad,** calling for 46 new diesels and 5000 new freight cars. Pullman-Standard Car Manufacturing Company and American Car and Foundry Company will build a sizeable share of the new freight cars, while Baldwin Locomotive Works and American Locomotive Company will construct the diesel engines.

Republic Steel Corporation and **Armco Steel Corporation** jointly have taken steps to assure adequate ore supplies for many years to come. The two concerns have purchased equally all stock of the Reserve Mining Company, controlling a deposit of at least 1.5 billion tons of magnetic taconite iron ore in the Messabi Range area. After grinding this taconite ore, the iron content is removed by magnetism and formed into pellets containing about 60% pure iron against 50% in the untreated Messabi ores that are beginning to dwindle. It is estimated that the acquired deposit will yield 500 million tons of high grade iron ore or a fifty years' supply at an annual rate of 10 million tons. The mining company will probably spend $60 million to produce 2.5 million tons of iron pellets annually at first, and allot another $100 million eventually to expand output to 10 million tons a year.

The Korean crisis has provided a large scale test of the speed with which quantities of Naval equipment can be "de-mothed", as well as of the efficiency of the moisture resistant film that has become so widely used in postwar. **Union Carbide and Carbon Corporation's** Bakelite Division reports that in less than thirty minutes, a naval winch on an aircraft carrier was stripped of its Vinylite plastic pod, lubricated and ready for service after being packed away for four and a half years. Only ten minutes was needed to do the actual stripping of the tough, non-inflammable film that was originally sprayed over a framework of sensitive tape in repeated applications.

Consolidated Edison Company is displaying in its New York auditorium an entirely new and unique method of automatically changing and blending color lighting. The system is known as Rollocolor, a product of the Color Lighting Corporation. Controls that resemble those of a radio, except that colors rather than stations are tuned in, provide over 500 color combinations at the turn of a dial. As it is possible to vary the whole tone of a room, theater, or window display by a slight change in color, the market potentials of the new system are promising. A number of large department stores, manufacturers and specialty shops

have arranged to display their products at the Consolidated Edison demonstration and many others have applied for future showings.

A new subsidiary has been added to the lengthening list of **Minnesota Mining & Manufacturing Company.** In Little Rock, Arkansas, where "3M" has a roofing granule plant, the company has just acquired the Big Rock Stone and Material Company. Minnesota Mining's local facilities have an annual capacity of 200,000 tons of finished granules and employ 190 persons. Big Rock employs 140 and its large quarries and crushers will fit nicely into the "3M" pattern.

Construction of new storage facilities has benefitted the operations of **Froedtert Grain and Malting Company,** but in recognition of the need for still further space, the company has just acquired all of the outstanding capital stock of Daniel D. Weschler & Sons, a Milwaukee malting concern, and plans to take over all of its physical plant and facilities for its own use. This action will give Froedert additional storage space of about 900,000 bushels and a malting plant with an annual production capacity of 2.5 million bushels. The net cost of these additions to the purchaser will be about $850,000 after liquidating the concern acquired, and no new financing will be required.

Significant progress towards greater integration by **Ford Motor Company** is indicated with the beginning of limited operations in the company's new pressed steel plant in Lackawanna, N. Y. This $35 million project, when fully completed, will have nineteen stamping press lines, designed to turn out steel parts for all of the many Ford assembly plants east of the Mississippi River. Another year may pass before the facility can operate at full capacity, but as fast as each stamping press line is completed, it is being put right to work. The huge plant has almost 1.3 million feet of floor space under one roof and will provide employment for 3500 workers eventually.

How importantly the medical profession has turned to the use of earth-mold "wonder drugs", the antibiotics, has been well brought out in a recent report by **Charles Pfizer & Company.** According to this source, American physicians will treat more than 85 million non-hospitalized patients during 1950. Of every $4 spent for prescription drugs in treating these patients, $1 will go for antibiotics, it is claimed. The increasing availability of these new drugs in retail pharmacies is greatly accelerating the speed of recovery by patients, and it looks as if the local druggists will soon be supplying 90% of domestic consumption of the newest wide-range antibiotics, including terramycin.

The first underpass installation of fluorescent lighting in the Midwest has just been completed in Indianapolis, Indiana, announces **General Electric Company.** 14 fluorescent luminaires mounted end to end in an underpass of the local Union Railway Company provide a practically continuous path of light along the length of the route. Motorists using the underpass benefit from the softly diffused, virtually glareless illumination.

Radio Corporation of America has been swift to lend aid to the Army in Korea, now heavily burdened with the transmission of important press, government and personal messages from the fighting front. RCA has assembled and dispatched a complete mobile station for handling everything from radio-telephone to radiophoto, voice programs or regular telegraph service, at the request of the U. S. Armed Services. The mobile unit has been housed in Army-type trucks and trailers that can be quickly moved about. 16 radio operators and technicians will provide 24-hour service for handling radio communications direct with San Francisco and via this route to other countries.

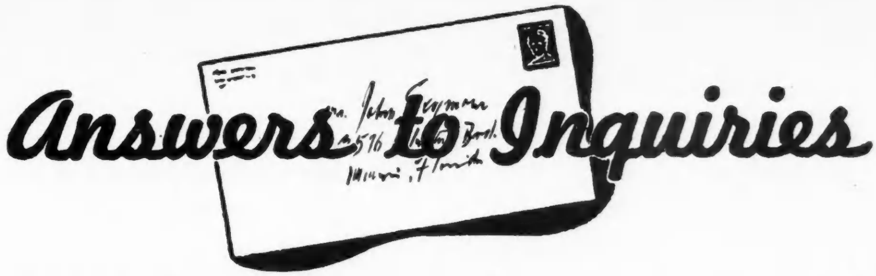
Miniature photograph enthusiasts who employ color films may now project their pictures by a new and simple table viewer that has just been introduced by **Eastman Kodak Company.** The Kodaslide Table Viewer is offered as a compact and inexpensive unit that includes both a projector and a special new screen. This combination will enable picture takers to project their miniature color transparencies onto a big 3⅞ by 5⅝ inch image in full daylight without darkening the room, and without the necessity of setting up a separate projector and screen. The new viewer occupies only a few inches of table top.

A second new 406-foot Lake Michigan car ferry, to cost approximately $4.5 million, and an additional 1000 70-ton coal hopper cars to cost about $5.2 million, will be purchased by the **Chesapeake and Ohio Railway.** Deliveries of 3000 new coal hopper cars and 1000 box cars previously ordered are expected by this road to begin soon. How urgently these new cars are needed is indicated by 254,647 freight car loadings by C & O in August compared with 203,943 a year ago. Because of transportation bottle necks, coal car shortages are critical in some areas and no improvement is in sight.

Two large new food distribution centers will be erected by **Safeway Stores Inc.,** and the construction contracts have already been signed. On a 50-acre site in Landover, Md. the company will build seven one-story structures containing 692,736 square feet for various warehouse purposes. On a 38-acre tract in Kearney, N. J., adjacent to the tracks of the Pennsylvania Railroad, will be built another large warehouse center with a floor space that eventually will total 664,000 feet. Different buildings in each location will contain their own product specialties, such as frozen foods, bakery goods, milk products or meats.

All fixtures and equipment in Safeway facilities are leased from a wholly owned subsidiary, Cortland Equipment Lessors, Inc., which finances itself through bank loans. The lease terms provide for funds sufficient to meet amortization and interest charges on the Cortland loans. Another subsidiary, Salem Commodities, Inc. has ample credit to finance merchandise purchases.

The manufacture of cans for food and other products increased by more than one and one-half billion units, or about 14%, during the first half of 1950 over the comparable period a year earlier, according to a spokesman for **American Can Company.** Total estimated production for the period was the equivalent of more than 12.8 billion No. 2 cans versus 11.3 billion in the same 1949 span. The increase in the output of food containers was over 500,000 units, with containers for fruits and vegetables, including fruit juices, accounting for 365,000 of the gain. Can production for non-food uses showed a rise of almost 27%, from approximately 3.95 billion in 1949 to about 5 billion in the current year. All said, these figures indicate a very active year for the can industry.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Armour and Company

"I know that Armour & Company reported a deficit in 1949 operations but with the improved demand for meat and at higher prices recently, I was wondering whether operations in recent months have improved substantially."

F. F., Raleigh, North Carolina

Armour & Company's operations in the third quarter of the 1950 fiscal year, 13 weeks to July 29, 1950, resulted in a profit of $3,508,346. This compared with a profit of $170,579 in the third quarter of last year.

For the first nine months, results were a profit of $12,892,300 or $2.62 per common share, compared with a loss of $6,342,055 or deficit of $2.11 a share last year.

In the first nine months, meat operations were profitable this year, whereas they were unprofitable last year. The balance of the company's operations were also more profitable than last year.

Sales in the third quarter amounted to $473,880,026–4.80% higher than in the third quarter last year. Sales for the nine months amounted to $1,309,497,-818–5.05% less than in the first nine months of last year.

Current borrowings at the end of the first nine months amounted to $53,444,065 compared with $60,424,855 last year, and working capital amounted to $166,125,-335 compared with $142,967,949 last year.

Company's long term debt at the end of the first nine months amounted to $142,493,259 this year compared with $147,143,866 last year. With earnings this year, Armour, to the extent of Sinking Fund Net Income, will have to provide for the Sinking Fund on company's income debentures—not only for the year 1950 but also for the years 1948 and 1949 which were deferred because of lack of earnings. The three-year sinking fund, aggregating $4,-200,000, will have to be provided out of working capital in the final quarter of this year.

Last dividend payment on the common stock was 30¢ a share on July 15, 1948.

Dresser Industries, Inc.

"In view of the increased demand in the oil and gas industry since the outbreak of the Korean war, I have been wondering how Dresser Industries is faring as this company is an important supplier of equipment to these two industries and also please furnish information as to backlog of orders on Dresser's books."

A. G., Worcester, Mass.

On a sales increase of 22%, consolidated net income of Dresser Industries, Inc. for its third fiscal quarter ended July 31, 1950, rose sharply as compared with the corresponding period last year.

Sales during the third fiscal quarter amounted to $21,424,926 as compared with $16,730,653 in the preceding quarter and with $17,737,232 in the third quarter of 1949.

Consolidated net income during the third quarter amounted to $1,403,009 equal to $1.21 a share on the 1,112,500 shares of common stock outstanding as compared with $413,226 or 32¢ a share in the preceding quarter and with $441,754 or 35¢ a share on the 1,095,137 shares of common stock outstanding at the end of the third quarter of 1949. Total earnings for the first nine months were $1,946,520 or $1.60 a share.

The company's backlog showed little change, despite the sharp pick-up in operations. As of July 31, 1950, Dresser's consolidated backlog amounted to $24,200,000 as compared with $24,829,000 on April 30, 1950.

The substantial increase in earnings directly reflects an increase in the demand for equipment used in the oil and gas industries and is in keeping with the improvement that has characterized the capital goods industry generally in recent months.

The current trends in demand for the products of the oil and gas industries are particularly significant to Dresser's outlook. Although an important portion of company's sales finds a wide variety of industrial applications, the bulk of its products go directly to the oil and gas industries. Since heavy equipment sales have been low for some months in relation to oil industry activity, it is apparent that the high levels of drilling and production were achieved at the expense of drawing on inventories and the wearing out of existing equipment. Consequently, coming months are expected to show increased demand for Dresser products.

Since the end of World War II, Dresser has completed an expansion and modernization program that called for expenditures of $15,500,000. Company's plants produced a wide range of essential military and civilian equipment in the last war and Dresser's greatly expanded facilities are ready for a far larger and more important manufacturing assignment in the country's growing defense effort.

Better "Flying Weather" For Airlines

(*Continued from page* 23)

6.6 billion miles. Greater operating efficiency and comparative freedom from serious accidents have contributed to gains in air travel this summer. Stricter regulation and supervision of non-certificated air carriers undoubtedly contributed to progress registered by leading trunk lines, especially in coach services.

Fare boosts put into effect on several railroads and bus lines may have stimulated business for airlines. Adoption of family-plan discounts provided another source of increased business for many carriers, helping to raise the load factor above the break-even point.

Now that some equipment borrowed by the Air Force has been returned, indicating that the crisis has passed, airline officials doubt that heavy demands will be made on commercial carriers in the near future. In the event that the European theatre should need hasty reinforcements, however, it might be necessary to divert passenger and cargo planes to transport troops and equipment in that direction. Any shift of a substantial amount of equipment to the military forces would benefit domestic operations.

If it should be necessary to curtail services in regular schedules, no doubt coach accommodations would be limited first and incentive family-group plans might be dropped. Payloads undoubtedly would be heavier on major routes, contributing to higher unit prices for seats and improved operating efficiency.

The decision of Washington authorities to order abrupt conversion of several ocean liners being constructed for shipping interests from ordinary passenger vessels to troopships has raised the question whether planes now on order for commercial airlines may be converted to military craft. Thus far no interruption of civilian business has been reported, and it has been assumed that no changes of this kind will be ordered. Delays may be encountered in starting work on projects that had not reached manufacturing stage. Planes nearing completion are expected to be delivered on time.

Possibility that production schedules may be retarded in some cases has spurred American Airlines to acquire additional Constellations. Other lines have on order new Convairs and Martin 4-0-4's scheduled for delivery next summer and, if emergency Air Force needs should arise, these ships could conceivably be diverted to military service on a charter basis.

In turning to financial aspects of this survey of air transportation, it may be observed that although earnings of representative companies have improved encouragingly and promise to continue toward higher levels, they still are well below the exceptionally favorable totals achieved in the war boom six or seven years ago when load factors ranged upward of 80 per cent.

Except for labor troubles and other unusual factors, American Airlines might have reported outstanding improvement for the first six months this year. As it was, operating income showed notable improvement over last year, but net profit amounted to 27 cents a share, against 44 cents last year. For all of 1949, earnings came to 79 cents a share, and indications point to distinct progress in the remaining months of 1950.

Eastern Air Lines

Eastern Air Lines experienced satisfactory results in the second quarter and reported net profit for the first six months of $1.03 a share, compared with 90 cents in the corresponding period of 1949. The outlook is regarded as promising for this carrier.

United Airlines continued to experience unprofitable operations in the first half of 1950 but indications pointed to "black" figures for the last six months. For the first six months ended June 30, the deficit approximated 13 cents a share on common, compared with one of 19 cents in the corresponding period of 1949. For the June quarter alone, however, the company showed net income of about $1.9 million, equal to 88 cents a share, against $3.1 million, or $1.47 a share, in the second quarter last year.

Trans World Airlines registered encouraging progress, partly as a result of more satisfactory results on overseas flights, and net profit for the first six months rose to the equivalent of 59 cents a share from 30 cents in the corresponding period of last year.

Showing of Northwest Airlines was disappointing and was attributed in no small measure to unexpectedly heavy costs of its new stratocruiser service. Although operating revenues rose encouragingly, the company experienced a deficit of $3.5 million equal to $4.48 a common share, for the first half. This contrasted with net profit of about $431,000, equal to 25 cents a share, in the first six months of 1949.

Braniff Airways converted a nominal deficit in the first half of 1949 to net profit equal to 40 cents a share in the first six months this year.

These samples give an idea of the uneven trend of earnings through the early months of the year preceding the outbreak of hostilities in the Far East. That conditions have suddenly changed for the better is evident in operating results for the third quarter, figures for which are due to be released shortly. Many more planes have departed with substantially full loads than at any previous time in years, according to industry officials. This encouraging showing, it is true, has been accomplished in a season when travel usually is around peak levels. All indications now point to better-than-normal operations through the usually difficult fourth quarter.

Another straw in the wind was the recent decision of directors of Northwest Airlines to clear all dividend arrears on the preferred stock. This action affords evidence of confidence in the outlook and a conviction that adverse effects registered in the first half of the year can be corrected.

Will Shipping Lines Benefit From Defense Effort?

(*Continued from page* 25)

experience in 1949, when an aggregate decline of $500 million in this international trade occurred.

Net earnings of $3.43 per share after subsidy payments in 1949 compared with $5.73 in 1948, and in the first six months of 1950, net income of 97 cents a share compared with $2.05 in the related span the year before. Accumulated reserve accounts, though, have strengthened finances and permitted the retirement of all mortgages on Moore-McCormick ships. Dividends of $37\frac{1}{2}$ cents per share were paid

in the first three quarters of 1950.

United States Lines owns a fleet of 46 cargo vessels and the passenger ship "America", besides operating the "Washington" on charter. Under construction is the super-liner "United States", to cost $70 million of which Government subsidies will account for about $42 million. The company has ample reserves to finance the balance. Since the Korean crisis, though, the Government has requisitioned the "United States" and will convert it into a troop ship, a step that will detract from the owner's potentials for meeting heavy competition in transatlantic passenger travel.

While passenger business has remained good, freight revenues have diminished rather steadily at a time when wage costs have advanced. Net earnings in 1949 were below a year earlier and in the first half of 1950, net of 86 cents a share compared with $1.87 in the same 1949 period. But quarterly dividends of 50 cents have remained unchanged.

A drastic reorganization and the elimination of unprofitable services has improved the position of Atlantic, Gulf and West Indies Steamship Lines, operating a coastal route, but an early resumption of common dividends is problematical. Operating revenues declined 40% in 1949 and 52% in the first quarter of 1950 compared with the year before. Large non-recurring profits, though, enabled the company to report net of $1.93 cents a share in the first half of 1950, although this did not allow for subsidy factors. The shares are very speculative, pending clarification of future operations.

Aided by substantial subsidies, the American Export Lines has operated profitably for a number of years, encouraging the construction of two new passenger liners, the "Independence" and "Constitution" that should be completed early next year. These new ships will cost about $23 million each. The company operates 28 new cargo ships and 4 new combination passenger-cargo vessels sailing to Mediterranean ports. While the company's westbound traffic has held up well of late, eastbound tonnage has declined substantially, resulting in sharply reduced earning in the first six months of 1950, when 45 cents a share compared with $2.83

in the same interval of 1949. No change thus far, however, has occurred in the 50 cents quarterly dividend rate.

From our discussion it will be seen that operating efficiency which varies greatly among shiplines is a very important factor in appraising the merits of their shares. Predominant, though, are continuous uncertainties pertinent to subsidy payments and Government controls. Caught between increasing competition with foreign ships, varying trade trends and Federal rulings, our merchant marine presently is much on the defensive—so much so that Congress is expected to come to the rescue as promptly as possible.

Carrier vs. York Corporation

(*Continued from page* 29)

of $46 million established a ratio closely comparable to York's. Similarly, a current ratio of 4.5 resembled that of York's sound position in marked degree.

In comparing the operating data of the two concerns last year, it will be noted that Carrier had an operating margin of 6.4% compared with 5.3% for York, although on sales of $46.2 million versus $50 million. This indicates certain operating advantages of Carrier that may be enhanced upon full completion of plant improvements now underway. The advantage, furthermore was carried down to net, producing a net profit margin of 3.9% for Carrier against 3.2% for York. Altogether, Carrier netted $1.8 million last year compared with $1.6 million earned by York, although the latter's volume was larger by almost $4 million. In this connection it is interesting to turn back to 1940, when Carrier earned $500,000 on sales of $13 million, and York earned a comparable amount on volume of $16 million.

Coming down to 1950, it is important to realize that comparisons this year are from a recessive base in 1949, and that seasonal factors have increasingly entered the picture. Because of the latter influence, Carrier reports sales and earnings quarterly on a basis of operations for the preceding twelve months. For 12 months ended July 31, 1950, the company reported net sales of $54.1 million and net earnings equal to $3.83 per share, indicating a sharp improvement over results for the fiscal year ended September 30, 1949.

Due to probable heavy inventory accumulation by distributors and probably increased orders from industrial clients following the outbreak of war in Korea, it would seem logical if Carrier in the final quarter of 1950 would earn at least as much if not more than in the preceding quarter, that is to say at present tax rates. The company earned $2.72 per share in fiscal 1949.

York Corporation reported sales of $37.3 million for nine months ended June 30, 1950, with net per share of $1.71 compared with $1.48 in the related period of 1949, when a volume of $38.2 million was reported. It seems evident that the company has attained improved cost controls in the current year, and as the current quarter undoubtedly has brought a substantial uptrend in volume, York earnings in fiscal 1950 may rise to around $2.30 per share.

In weighing the merits of the two equities, it seems clear that both York and Carrier are ably managed and soundly financed to make the most of their rapidly unfolding opportunities. In comparing per share earnings and dividends, it is important to realize that they are spread over 930,636 shares of common stock for York against only 590,578 for Carrier, although in each case about the same amount of senior securities are outstanding. This provides somewhat more leverage for the Carrier shares, and if a long term uptrend in earnings materializes, enhances their appreciation potentials.

In view of the promising outlook for both companies, recent quotations for these low priced shares do not appear unreasonable, as indicated by a price-earnings ratio of 4.5 for Carrier and 4.9 for York. For reasons we have explained, the dividend record of both companies is short, York making its initial payment on the common in 1944 and Carrier in 1948. York has paid semi-annual dividends of 25 cents a share thus far in 1950 compared with 37½ cents in 1949, but the higher rate could soon be restored if not improved.

Carrier, on the other hand, has paid quarterly dividends of 25 cents in both years, and relative to estimated earnings of $3.90 a share in fiscal 1950, the dividend holds promise of improvement. Carrier also provides a better current yield of 5.6% (based on indicated 1950 dividends) compared with 4.6% for York.

Desirable Growth Companies

All considered, both Carrier and York now rank among desirable growth companies, and as they are already negotiating considerable military business, their sales over the medium term should prove at least stable despite possible cutbacks of strictly civilian output. These factors impart considerable speculative appeal to their equities, although the industry is sensitive to changes in economic conditions. Statistically, Carrier shares seem to have somewhat of an edge over those of York Corporation, while at the same time the company's improved facilities and competitive position, especially in the tall-building markets, suggest some advantages. A relatively sheltered tax position is characteristic of both concerns.

Truman's Control Powers

(*Continued from page* 15)

by mid-1951, the economy will be back on a planned basis; for as rearmament, our own as well as that of Western Europe, progresses, more and more controls must be used to channel materials into war industries and divide the balance among civilian industries. And more and greater need will arise to hold down prices, and therefore wages, to hold down the cost of rearming and narrow the inflationary gap.

The cost climb for rearmament is already causing upward revisions of spending plans, the aggregate of which may well exceed the contemplated $30 billion annually by a substantial margin.

In the field of allocation, growing shortages of copper and brass are beginning to cramp civilian output in many lines, and auto and appliance industries, and others, may face cutbacks as early as October though these may not yet be serious in any way, with allocations of copper being pared no more than about 10%. Steel is another problem soon to bring restrictions and cutbacks.

Exports are likely to be screened far more carefully henceforth. Already shipments of copper, zinc, lead, aluminum and their products are being curtailed, and the same is true of certain types of tires and tubes. Initially these will be relatively minor irritations to exporters but export controls are apt to widen, with more incisive repercussions.

Earnings Prospects for Bus and Truck Lines

(*Continued from page* 26)

the entire eastern seaboard and west to Cleveland, Ohio and Nashville, Tennessee. The company owns more than 3000 vehicles, operating over 64.5 million miles in 1949 and carrying 1.17 million tons of freight. The company is a Regular Route Common Carrier, as defined and restricted by the National Transportation Act. In the circumstances, need for confining operations to a designated route is somewhat of a handicap.

Prior to 1946, Associated Transport had operated with an annual deficit for several years, but since then a marked uptrend in gross revenues to a peak of $28.6 million last year, aided by greater operating efficiency, has lifted net earnings impressively. Net income of $1.4 million in 1949, combined with $1.1 million in 1948, more than equalled accumulated arrears on the preferred that totalled about $1.6 million on December 15, 1949.

As net earnings in the first half of 1950 were estimated by the management at about $1.3 million or $1.74 per share on the common, it seems likely that arrears on the preferred may be cleared up fairly soon, but opinion differs as to this among bankers, holders of $3.7 million long term obligations, and the management. Improved earnings, though, have stirred speculative interest in the equities, as shown by a rise in their price from a low of 3⅝ in 1949 to a recent high of 10¾.

U. S. Freight Co.

The largest freight forwarding business in the United States is conducted by United States Freight Company, operating on a countrywide and even international scale. Main activities of the company embrace handling of less-than-carload lots, but local carting in many cities is also a factor. In the boom year 1948, the company earned as much as $7.11 per share, but profits declined sharply to $2.06 in 1949, due to the business recession and rising expenses. Recovery in the first half of 1950 has been indicated by a rise in volume, and net earnings were $1.34 per share. Quarterly dividends have been paid regularly, except in a few lean years, since 1925 and current earnings seem to adequately cover the present 25 cents quarterly rate.

As for long distance passenger traffic by buses, Greyhound Corporation easily holds the dominant position. Throughout the United States and some sections of Canada, the company and numerous subsidiaries operate over 83,000 miles of route, besides owning many "post houses" and terminals. Probably due to the increasing number of private automobiles in use and rising costs, Greyhound's earnings have tended to decline for the last three years from a peak of $2.11 a share in 1946 to $1.22 in 1949. Two prolonged strikes last year were responsible for reduction of operating revenues to $184.1 million from $192.5 million in 1948.

Some improvement is indicated in the current year, as shown by

net earnings of 40 cents a share for the first six months versus 33 cents the year before. A few months ago, the company raised fares on about a third of its lines and has sought permission for raises on others. Depreciation charges also should diminish this year and next, now that less new equipment will be added to the bus fleet. Due to seasonal factors, the second half year should bring a substantial gain in earnings over the first six months. The management has shown confidence in improved operating efficiency and in the general outlook by declaring 25 cents quarterly dividends regularly through the first three quarters of 1950, although the coverage by earnings may be rather thin.

Southeastern Greyhound Lines presently is in no way affiliated with Greyhound Corporation, although stockholders in both concerns have ratified a merger in the current year. Final action will hinge on pending decisions by the Interstate Commerce Commission, which has been considering the matter for several months. Southeastern Greyhound does the largest passenger motor carrier business in Kentucky, Alabama, Tennessee and Georgia, operating over 7,000 miles of route, and reporting annual gross revenues of around $20 million. For five years past, however, earnings have been progressively pinched by higher operating costs, despite occasional boosts in fares.

Net earnings of $1.37 in 1949 compared with $3.50 in 1945, and in the first six months of 1950, net of 35 cents was slightly lower than 49 cents a share in the same 1949 period. Quarterly dividends of 30 cents a share, though, have been maintained in the first three quarters of the current year. It is possible that through operating economies the proposed merger of Southeastern Greyhound with Greyhound Corporation might benefit both companies, but pending the decision by the ICC the outlook remains obscure.

What's Behind Recent Popularity of Canadian Securities?

(*Continued from page* 31)

capita basis, just about one-third as large as ours. Moreover, the Canadians are spending little in the way of international aid.

In addition to having smaller expenditures, Ottawa has also been aware—far more than Washington—of the need of holding down the cost of government. There has been no deficit financing since 1947. On the contrary, it has been possible to reduce the national gross debt by about 10 per cent despite a considerable reduction in wartime income tax rates. Had we been able to do as well as Canada, our Federal debt would now be about $25 billion smaller than in 1946.

In the foregoing, we have outlined the pros and cons that necessarily enter the question of any currency readjustment in Canada. In a sense, they posed a dilemma, and this dilemma has been astutely tackled by the kind of action finally undertaken: The Canadian dollar was cut loose from Monetary fund restrictions and was left to find its own level.

Doubtless this was a disappointment to those who had anticipated a quick profit to the extent of full parity with the American dollar. Its exchange value will now be determined by the free flow of transactions in it, and by supply and demand. On the first trading day after the announcement, it was quoted around 94, narrowing the discount to six cents from originally 9⅛ cents. It is expected that the step, admittedly a clever one, will ultimately result in a new rate around 95 cents.

Obviously, the Canadian authorities were convinced of the early necessity to act, lest the influx of foreign money would create an inflationary situation. But the difficulty was that any upvaluation to parity with the U. S. dollar might have resulted in subsequent pressure against the Canadian dollar to force devaluation once more. Upvaluation to any other fixed point than parity would be open to the same objection. The appropriate rate at the present time might be anywhere between parity and the 9% discount recently in effect.

Permits will not be granted for the export of Canadian capital except for necessary business operations, and it is not clear whether new regulations, to be issued shortly, will allow foreigners to take their recently remitted money out of Canada except by sales in the so-called free market as previously. In other words, Canadians are still not free to open dollar accounts in the United States, the apprehension apparently being that any release of capital restrictions might open the way to at least a moderate outflow of funds into the United States. On the other hand, foreign speculators will have to be satisfied with what rate the open market offers, certainly less than hoped for.

To the bona fide investor in Canadian securities, as already stated the move is of relatively little importance. The prospect is that a good deal of American money will keep flowing into Canada for long-term investment not because of potential valuation profits but to benefit from the mounting economic strength of our Northern neighbor.

Canadian defense expenditures during the 1951 fiscal year are expected to be raised by about $250 million, and during the coming fiscal year starting April 1, 1951, they may come up to $1,000 million. Despite these increases, Canada hopes to balance her budget this fiscal year as well as the next. This is to be accomplished by a rise in corporate tax rates, and by cutting down the spending of various civilian departments (by about $200 million or about 8 per cent of the total budget). Because of booming business, general tax collections will unquestionably also rise; during the first months of the current fiscal year, federal accounts are reported to have shown a surplus of over $200 million.

In the area of industries, greatest progress is being made in the manufacturing of products the imports of which have had to be paid for in U. S. dollars. The automobile industry is breaking all previous records, as are also machinery and the machine tool industries. The capacity of the iron and steel industry is being continuously expanded; a new stainless steel rolling mill is to be installed this year.

Since it is now officially permitted to place U. S. war orders with Canadian plants, the development of branch plants of U. S. companies will probably be given another spurt. According to official sources, some 260 U. S.-controlled new plants were established in Canada in the two years following the imposition of import controls in the fall of 1947. In the same period some 60 British firms established branches in Canada, and there were about 20 from other countries.

The discoveries of new important natural resources have been

so many in recent years that it would take considerable space to enumerate even the most important of them. Most spectacular and most important for Canada's economy were the oil discoveries in central Alberta. The experts are confident that petroleum reserves several times as large as those established at present (about 1.5 billion barrels) will be uncovered. Production is being held back only by local shortages of refining capacity and of transportation facilities to consuming areas.

Other important discoveries include the major iron ore deposits in Labrador, Quebec (north of the St. Lawrence river), and Ontario (north of Lake Superior), titanium deposits in Quebec, uranium deposits near Lake Superior, non-ferrous metal discoveries in British Colombia and the Far North. The development of all these new resources will require new railways, highways, port facilities, distributing centers, etc. Two major hydroelectric projects are under construction in Ontario.

Proof of the high regard in which Canada's potentialities are held is the magnitude of foreign investments. They hit a record of nearly $8 billion in 1949; of this total, U. S. investments were put at about $5.9 billion. The interest and dividends paid to U. S. investors also hit a new high of $325 million in 1949.

What Market Policy Now?

(*Continued from page* 7)

Mainly on long-term reasoning, we continue to advise holding about three quarters of available common-stock funds employed, one quarter in re-reserve against contingencies and for future buying opportunities—Monday, Oct. 2.

Companies Benefitting From Low Labor Factor

(*Continued from page* 13)

Wage rates in the building industry are now pegged at a pretty high level and will likely advance somewhat further in the near term. At the same time there are signs that the new credit restrictions on home construction may reduce demand a good deal more abruptly than had been anticipated. In this event a few leaders may find their relatively high wage ratios a handicap in maintaining present profit margins. Johns-Manville Corporation's labor costs relative to record sales of $162 million in 1949 were 37.3%, but the ratio had declined about 1% annually for several years past.

Typical in the machinery industry was the 1949 experience of Caterpillar Tractor Company, establishing a wage-sales ratio of 30.1% versus 32.8% in 1948, 34.4% in 1947 and 40.7% in 1946. While practically all of the electrical products manufacturers are now operating with considerably lower wage ratios than in 1946, the trend in the last three years has been irregular. Westinghouse Electric Corporation, for example, had a 1949 ratio of 39.4%, creeping up from 36.8% in 1947 and 38.1% in 1948. In contrast, General Electric's wage ratio of 37.6% last year was the lowest for the past four periods, and showed a consistent downtrend.

Above average labor costs in relation to volume are characteristic of the aircraft industry and the ratios in this division swing rather radically from year to year depending upon circumstances. Research expenses are continually heavy and when sizable orders pour in, tooling up costs and preparations to expand volume involve substantial outlays for manpower. Douglas Aircraft Company, for instance, despite highly efficient management had a wage ratio of 56.4% last year compared with 44.6% in 1948, 57% in 1947. A discouraging peak of 77.3% in 1946 was due to reconversion problems.

We could continue to cite many other industries, but it would hardly seem necessary to demonstrate on what a broad scale the wage ratios of most have continued to decline moderately but rather consistently in postwar. While it seems evident that sales have generally advanced at a faster pace than wages, it should be realized that increased production quite as much as advanced prices have accounted for the improved ratios. Equal credit must also be accorded to operating economies attained through the vast modernization program, largely financed by retained earnings.

However, there is a practical limit to the extent to which rising wages can be offset by efficiency and economies. For this reason alone, a low wage factor—everything else being equal—constitutes a distinct differential advantage in appraising investments. Not only are break-even points less vulnerable, but a company with a low wage ratio is better able to absorb higher wages when the competitive going gets heavy.

As I See It

(*Continued from page* 5)

in war with the United States.

The Reds have been talking "sweetly" at Lake Success, always a suspicious sign. Let's not fall for it again. A maneuver of that sort was to be expected, but we must guard against a quick "peaceful" settlement that would settle nothing. We can have the fruits of victory if we do not falter in gathering them. What's more, there is every evidence that the Kremlin wants no new great war at this time.

Transportation: Front Line of the Economy in Peace and War

(*Continued from page* 10)

ing traffic flowing from boom and mobilization. In other words, with a tremendous traffic boom ahead, further diversion of freight to the trucking industry becomes necessary to handle the load.

Elsewhere, the emergency may well speed formulation of a sound policy for our merchant marine, heretofore lacking. It may also lead to more far-sighted regulation of the air transport industry, particularly as far as competition from non-scheduled carriers is concerned. Eventually also, there may be regulatory steps that may narrow the advantages which the highway motor carrier has been enjoying over the railroad industry.

The past has shown, as does the present, that transportation is the front-line of the economy in peace and war. We cannot prosper, and can hardly exist, without an adequate and efficient system of transportation. The latter, in turn, appears unthinkable without a new approach in adapting our transportation policy to the many changes which have occurred, and to the new conditions which exist.

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